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Editorial

Dwight Eisenhower is a towering figure in American history, though he had some quirks that are less well-known. He's renowned as the soldier who led the invasion of Normandy (D-Day) during World War Two and then went on to become President from 1953 to 1961. However, in between his stints as soldier and US President, he was President of Columbia University. And it was here that things didn't go according to plan.

Academics at the university came to regard Eisenhower as a simpleton. A popular story among university faculty was that they should never send a memorandum to the general of more than one page, lest he get too tired.

There were also question marks over Eisenhower's decision making as he regarded most university tasks as not urgent, whereas the university's academics thought their issues needed to be dealt with as soon as possible.

Ironically, Eisenhower's decision-making and task management tools are now taught in many university courses around the world (the '[Eisenhower matrix]').

The tools build upon other approaches toward simplifying priorities such as the [80/20 rule], or Pareto principle, that suggests 80% of outcomes (or outputs) result from 20% of all causes (or inputs) for any given event.

The art of simplification and 80/20 can be applied to many areas of life. For instance, there are only a handful of key decisions that will determine whether you are financially successful or not. Other decisions are likely to be less important and not worth focusing on.

Here is my list of five key decisions that will shape your financial success:

1. What you do for work

An obvious one: work equals income. What you do for work will determine how much you make.

How do you choose what work to pursue? Apple founder, Steve Jobs, believed that you should follow your passions. In 1997, Jobs returned to Apple after a 12-year hiatus, and the company he co-founded was on the brink of collapse. He held a staff meeting to explain how Apple could revitalize itself:

"Apple is not about making boxes for people to get their jobs done, although we do that well. Apple is about something more. Its core value is that we believe that people with passion can change the world for the better."

Jobs returned to the theme in his commencement address to Stanford University in 2005. “You’ve got to find what you love,” Jobs said. “The only way to do great work is to love what you do. If you haven’t found it yet, keep looking. Don’t settle. As with all matters of the heart, you’ll know when you find it.”

Others think Jobs was wrong. Cal Newport, a professor and best-selling author, suggests you should pursue what you’re good at, not what your passions are. He thinks ‘follow your passion’ is bad advice because most people, especially younger ones, don’t have clear pre-defined passions to follow. There’s also little science to support the idea that matching your job to a pre-existing interest makes you more likely to find the work satisfying. According to Newport, what works better is putting in “hard work to master something rare and valuable, then deploy that leverage to steer your working life in directions that resonate”.

The truth probably lies somewhere between the views of Jobs and Newport. The Bhagavad Gita, the famous Hindu scripture, may have been onto something, by urging followers to find their unique gifts and pursue them with a singular focus.

Cartoonist Scott Adams has a different take on the topic. He believes that to be successful at work, you have two paths:

a) Become the best at one specific thing

b) Become very good (top 25%) at two or more things.

The first strategy is difficult. There aren’t many people who become best-selling musicians or world-class soccer players. The probabilities of being the best at one thing are extremely low.

The second strategy is much easier. Say, you want to study law at university. Wanting to become a lawyer means competing against thousands of people. However, if you combine law with a technology degree, you potentially become rare and valuable to an employer. And if you can add other skills such as public speaking or writing or something else, then you may become even more valuable. And that will be reflected in the income you earn.

2. Where you live

Location matters. Where you live will have a large say in what type of job you get and the salary that you receive.

Numerous studies suggest that larger cities attract higher salaries. In Australia, Sydney has the highest median weekly earnings of $1,300 per week, followed by Perth at $1,211, Melbourne’s $1,200 and Brisbane’s $1,199.

Job availability is also an issue in smaller cities or states. Currently, Tasmania and South Australia have the highest jobless rates in Australia at 4.2% and 4% respectively, while New South Wales has the lowest rate at 3.2%.

Of course, job availability and salary aren’t the only factors to consider when it comes to location. Cost is another. Larger cities such as Sydney and Melbourne have much higher costs, especially for housing and education. You need a higher salary to cover these costs.

3. Who you marry

Yes, who you marry is critical to your finances. I’m not talking about marrying someone rich, although if you’re that way inclined, don’t let me stop you.

I’m talking more about when marriages fall apart. Divorce is an expensive exercise and one best avoided.

The application process to divorce is inexpensive. It’s when things get messy that the costs tend to rise. I’m told (never experienced) that arbitration for divorce can set you back $4,000-8,000 a day and going to court will cost $75,000+, though often a lot more.

Marry well and your finances will thank you.

4. Whether you have a family

Whether you decide to have a family or not will have a huge bearing on your wealth. I have a daughter in primary school who does six after-school activities. Recently, I added up the costs of these activities - and I wish I hadn’t. Needless to say, there are plans for significant cutbacks on her activities next year.

The University of Canberra did a comprehensive study on the costs of raising kids until they left home. It found the cost for a middle-income family of raising two children until they left home was $812,000 and for high-income families it was $1.09 million. Keep in mind that this study was done in 2013, and costs have risen since then. However, an average of $400,000-500,000 for each child seems about right in my eyes.

If you decide to have kids, plan and budget accordingly.

5. How you invest your savings

First, you need to have savings. That means your income must be more than your costs. If achieving this is a struggle, or even if it isn't, making a budget is essential.

If you need inspiration for budgeting, it's worth reading Thomas Stanley's *The Millionaire Next Door*. The book details the common traits of everyday millionaires in America. One of the key traits is frugality – keeping costs down even when your wealth increases.

I also like the idea of zero-based budgeting. This is a concept where you plan each year's budget by starting at 'zero'. That means, justifying all spending each year based on needs rather than on what you've done in the past. Private equity firm, 3G Capital, pioneered the idea and successfully applied it at companies such as Anheuser-Busch InBev, Burger King, and Heinz.

Once you have savings, you need to decide how to invest it. Do you take the money and buy a house? Do you invest it in a business which you own and/or manage and operate? Or do you invest in stocks?

Whichever route you take, it's best to start early in life to allow the magic of compound interest to work.

In this week's edition ...

The Commonwealth Bank's Chief Economist, **Stephen Halmarick**, suggests that the world's major central banks will continue to address 'today's problem' of high inflation for another 3-6 months. Then they'll have to pivot to deal with 'tomorrow's problem' of global growth and unemployment. Stephen suggests this year's aggressive interest rate hikes are likely to lead to a global recession in 2023.

A strange thing has happened in the world of Australian bond funds: shrinking income distributions. Most of us would assume that bond managers have been able to reinvest at progressively higher yields given recent rate increases, and that they'd have the capacity to distribute more income. But as **Tim Wong** of Morningstar notes, that's not the case. The problem is that coupon income has been offset by sizable capital losses.

Peta Tilse of Cromwell Funds Management notes that more than 20% of Australians believe they won't achieve their desired retirement standard of living, and half of those who are currently working admit they are unsure how much they will have, or need, when they retire. Peta outlines some of the risks facing Australians who are nearing, or who are in, retirement as well as several ways to mitigate these risks.

Meanwhile, some call it the silly season, others call it the festive season, but **Rachel Lane** calls this time of year 'aged care season'. It's a time when families come together, maybe for the first time since last Christmas, and notice that Mum or Dad or both need some (or a lot) of care. Rachel offers 12 tips on how to best handle 'aged care season'. And lawyer **Elizabeth Wang** runs through a hypothetical case of an aging couple who question their ability to run their SMSF and look for ways to manage the next step. She suggests there are potential solutions using NSW Trustee and Guardian.

Firstlinks' **Graham Hand** is on a short sabbatical and he's timed it perfectly to coincide with his beloved soccer world cup. Graham made the early morning trek to Darling Harbour to watch the Socceroos play Argentina and he was amazed by the number of newly-converted soccer supporters. The big question for him is whether this new-found enthusiasm for soccer translates to greater support for the local A-league competition.

James Johnstone of Redwheel thinks that after a decade of underperformance, emerging market stocks are at their most attractive point since the early 2000s. A commodity super-cycle and low valuations could make for a juicy turnaround story in his eyes.

Our White Paper of the week is from Capital Group where four of Capital's investment professionals share their thoughts on the global economy and how they are investing in a world in transition.

James Gruber

Pivoting from high inflation to global recession

Stephen Halmarick

This note is an edited version of a speech given at the Australian Economic Roadshow events in Sydney (17 November) and Melbourne (24 November).

'Today's problem' – inflation and policy rates

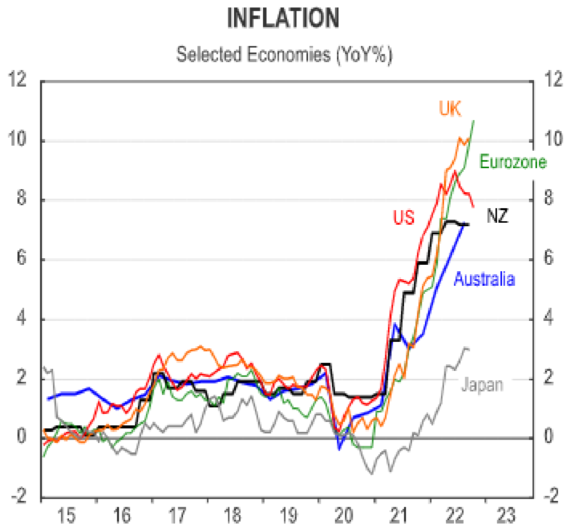
For the world's major central banks, the second half of 2022 has been dominated by addressing 'today's problem' - high inflation. This has seen significant monetary policy tightening across the US, Canada, New Zealand, UK, Europe and, of course, in Australia.

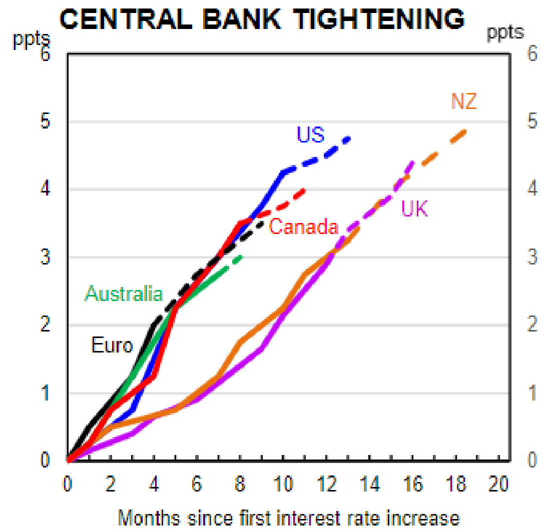
This tightening cycle has led to a large rise in bond yields across the curve, a widening of credit spreads, and weakness in equity markets.

Despite the recent slightly better news on US inflation, we expect the major central banks will continue to address 'today's problem' in the next 3-6 months. That is, we expect to see further monetary policy tightening from the major central banks, although for some of the pace of tightening to slow.

For the major central banks, we expect the following:

- US Fed: a 50bp rate hike at the 14 December FOMC, followed by 25bp moves in early February and mid-March 2023 to a peak of 4.75%-5%.
- Bank of Canada: 25bp moves over the next two meetings, to a peak of 4.25%.
- Bank of England: 50bp moves in coming months to a peak of 4.5% in Q1 23.
- ECB: a 75bp move on 15 December, followed by a 50bp move in early February and a25bp move in mid-March to a peak of 3% in the Refi rate of 3.0%.
- RBNZ: Our ASB colleagues expect the RBNZ to remain hawkish, taking the OCR to a peak of 5.5% before mid-2023.





Source: RBA, CBA

As noted, the exception to the ongoing global monetary policy tightening cycle is expected to be the Bank of Japan (BoJ) and People's Bank of China (PBoC). The BoJ is expected to retain its ultra-easy monetary policy settings until Governor Kuroda's term expires in April 2023.

For the PBoC, after the recent cut to the RRR of 25bp, further monetary policy easing is expected as the Chinese authorities try to support economic growth under the weight of the zero-Covid policies and uncertainties in the property market.

'Tomorrow's problem': global growth and unemployment

For 2023, one of the big developments for the global economy and markets will be what we might call 'the pivot'. That is, when central banks feel like they have got on top of inflation, i.e. 'today's problem', and switch to a focus on 'tomorrow's problem.'

We have already seen some signs of this. The US Fed Chair has talked about slowing the pace of tightening in coming meetings, the BoE Governor has noted that rates in the UK are unlikely to go as high as market pricing, while here in Australia, the last three rate hikes have been a smaller 25bp, rather than the previous 50bp moves from June-September.

Markets initially reacted positively to the lower-than-expected October CPI and core CPI in the US. But as we have seen more recently, central bank rhetoric, including in the US and certainly in New Zealand, remains generally hawkish. However, as we get into 2023, there is likely to be a more concerted pivot in monetary policy.

The first phase will be the slowdown in the pace of tightening, then an end to the tightening cycle and then, eventually, the start of some monetary policy easing.

Our base case is that all of that could happen over the course of 2023, with rate cuts pencilled in before the end of 2023 in the US and in Australia.

The aggressive tightening of monetary policy through 2022 and the early parts of 2023 are likely to lead to a good old fashioned central bank-led economic downturn or recession. And we haven't seen one of those for several decades.

We forecast the world economy will enter a recession in 2023, expanding by just 1.8% - noting that the IMF defines a global recession as growth of less than 2%.

Specifically, we expect to see recessions in the US (2023 economic growth of -0.1%), the UK (-1.0%), the Eurozone (-1.1%) and Japan (-0.3%). Our base case for China is that an eventual easing of the zero-Covid policy and significant policy stimulus will likely see economic growth in China accelerate to 5.4% in 2023.

The pivot

One of the key themes for 2023 is expected to be a pivot in monetary policy. The key for the central banks is that in addition to signs that inflation has peaked and is returning to target, they will also want to see some weakness in both consumer spending and the labour market.

The first sign of 'the pivot' will be a slowing in the pace of tightening, but the important phase for markets will be an end to the tightening cycle. For the US, we expect to see the last tightening in March 2023.

Once an end to the tightening cycle is underway, consumer demand is weakening and the unemployment rate is rising, we should see some major economic and market developments in 2023.

As noted, global economic growth could slow markedly, with recessions in a number of key economies.

In addition, global bond yields could fall quite quickly. Indeed, we have both US and Australian 10yr bond yields at 2.8% at the end of 2023, approx. 70bp-80bp lower than current levels. The Australian yield curve should flatten in this process with the Australia/US 10yr spread expected to trade around 0bp to -20bp out to the end of 2023.

In currency markets, despite the recent rally, we still think the risk over the next few months is for further depreciation in the AUD. Or rather, we expect the appreciation of the USD to resume.

Global economic growth

GDP forecasts	2022		2023		2024		*Average growth*
	Central Bank*	CBA	Central Bank*	CBA	Central Bank*	CBA	*since 1985*
World	3.2	2.9	2.7	1.8	3.2	2.6	*3.7*
Individual economies							
UK	4.6	4.5	1.8	-1.0	-1.1	0.2	*2.4*
Eurozone	3.3	3.2	0.9	-1.1	1.9	0.6	*1.5*
US (Dec. quarter v Dec. quarter)	0.4	0.4	1.2	-0.1	1.7	1.2	*2.8*
Canada	3.3	3.3	0.9	1.0	2.0	1.7	*2.6*
Australia	4.1	3.8	2.3	1.4	1.8	n.a.	*3.4*
New Zealand	2.2	2.2	1.4	1.4	0.7	1.1	*2.7*
China	3.4	3.4	5.1	5.4	n.a.	5.5	*9.8*
Japan (fiscal year)	1.8	1.4	1.7	-0.3	1.3	0.6	*1.8*

Source: CBA, 'central bank' forecast for China from Bloomberg, and world forecast from IMF.

Our Australian Economics team has done a great job in calling the Australian economy over a number of very difficult years. Expected key highlights for the year ahead in Australia are:

- Australian economic growth is expected to moderate over 2022 and then shift to below-trend growth in 2023.

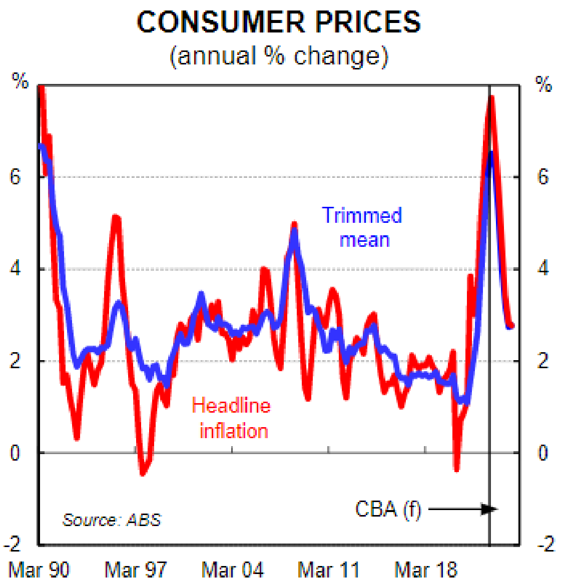
- GDP growth is forecast at 2.2%/yr as at Q4 22 (3.8% year average) and then down at 1.4%/yr at Q4 23 (1.3% year average).
- The unemployment rate is forecast to stay around 3½% into year-end 2022 but move higher to 4¼% over H2 2023.
- Headline inflation is expected to peak near 7¾% in Q4 22, but then move lower through 2023 to an estimated 3.4%/yr in Q4 23. Inflation is forecast back within the 2%-3% target range in early 2024.
- Underlying inflation is expected to peak ~6.5% in Q4 22, moderate to 3.2%/yr at Q4 23 and then be back within target in Q1 24. See below for more details on recent trends in inflation.
- Wages growth is expected to peak at ~3½%yr by mid-2023.
- As at November, national dwelling prices are now down 7% from their peak in April this year and are expected to decline by~15%, peak to trough in this cycle. Prices are then expected to towards the end ofH2 2023 and through 2024.
- Key risks for the Australian economy remain around geopolitics, the savings rate, fiscal policy, net overseas migration, international trade and global backdrop.

Inflation

It is well known that inflation has surged higher in Australia, to 7.3% in Q3 22 and is expected to move even higher when the Q4 22 data is released on 25 January 2023.

At face value, this data supports the view expressed by both the RBA Governor and Deputy Governor in recent weeks that the prospects are promising that we may soon be approaching the peak in inflation in Australia.

As noted above, while we expect to see the annual rate of both headline and underlying inflation move higher in Q4 22, we then expect to see the pace of inflation moderate through 2023, with both headline and underlying inflation forecast back in the RBA's 2%-3% target range by early 2024. Note these forecasts assume some form of intervention by the government on energy prices.



RBA monetary policy

All in all, with the housing market already turning down, consumer spending in the process of softening and inflation expected to peak in coming months, we expect the RBA is close to the end of its monetary policy tightening cycle. Especially when we consider the lags between interest rate hikes and higher mortgage repayments, as well as the large roll off of fixed rate home loans in 2023.

The RBA Governor has been signalling in recent weeks that the RBA is not on a pre-set course for monetary policy. It is clear from the rhetoric that the RBA thinks they have more work to do and that they could resume a faster pace of tightening if the data dictated this, but the RBA has also stated on several occasions that "the Board is prepared to keep rates unchanged for a period while it assesses the state of the economy and the inflation outlook."

Our base case is that by the time we get to early February 2023 there will be enough accumulated evidence to support the view that the RBA does not need to tighten monetary policy any further, although there remains the risk of one last rate hike in early 2023.

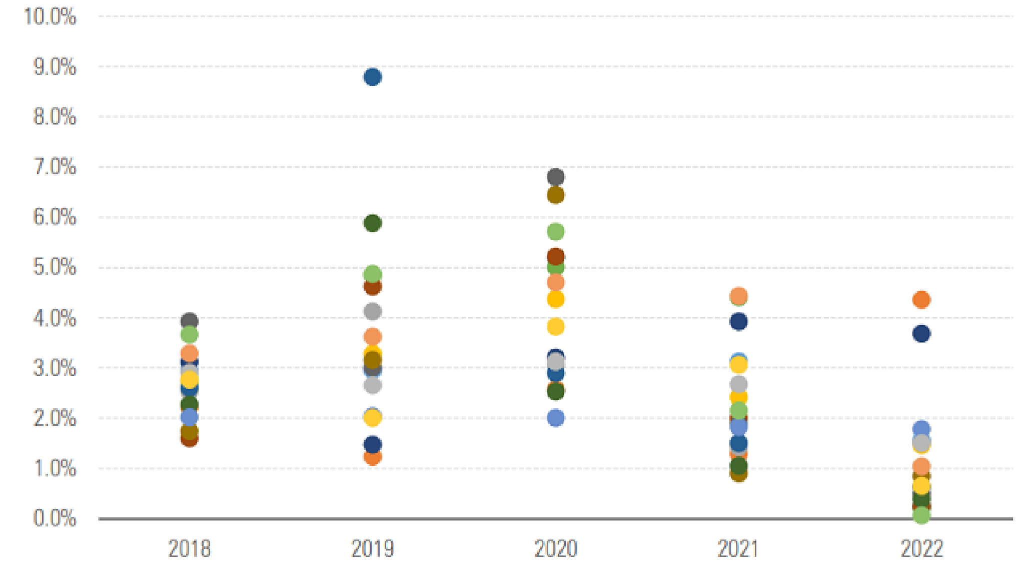
Stephen Halmarick is Chief Economist and Head of Global Economic & Markets Research at Commonwealth Bank of Australia.

Why have bond fund distributions been shrinking?

Tim Wong

The momentous rise in government bond yields since the second half of 2021 has had one unexpected effect: shrinking income distributions. This may be surprising given bond managers have been able to reinvest at progressively higher yields, and presumably they are able to distribute more income. The income distributions we qualitatively cover among the Australian bond fund managers are shown in Exhibit 1.

Exhibit 1 Income Distributions From Qualitatively Rated Funds in Bonds—Australia by Financial Year



Source: Morningstar Direct. Data as of 16/11/2022.

This experience is principally due to fund distributions comprising both coupon income and realised capital gains or losses. Coupon income may rise as funds reinvest but can be offset by sizable capital losses. The mid-2021 starting point accentuated this situation—near-zero policy rates globally combined with yield curve control in diminishing the running yield of many bond portfolios.

As a side note, some fund managers opted to make a fair value election under the Taxation of Financial Arrangements Act, or TOFA, which also requires funds to pay out unrealised gains and losses, effectively making total returns the basis for distributions. The widespread mark to market capital declines raised the hurdle for distributing income over this period. (To be clear, this TOFA election enables funds to largely mitigate the effect of gains or losses on currency hedges on distributions, a major reason for its use.) Strategies that have not made the TOFA fair value election and have been unable to pay distributions underscores the influence of trading activity (some of which is necessary as bonds mature) in conjunction with the delicate initial conditions.

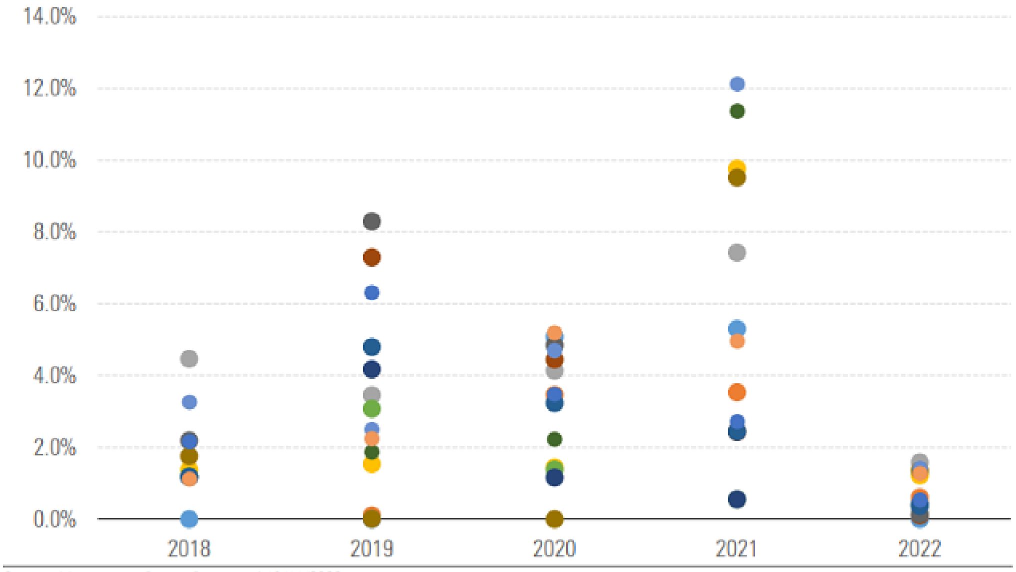
Strategies that couldn't pay a distribution at all through the first three quarters of the 2022 calendar year included CC JCB Active Bond 41406, Janus Henderson Australian Fixed Interest 17690, and Yarra Australian Bond 10858. Over the 2022 financial year, several others distributed little more than that. The two outliers in Exhibit 1—Janus Henderson Tactical Income 17406 and Altius Sustainable Bond 40709—each avoided a slump in distributions, their shorter duration dampening sensitivity to sharply rising government-bond yields.

We've written extensively about how and why unitholder distributions can bear little resemblance to underlying coupon or dividend yields in pooled funds (see Onshore and Offshore Fixed Interest Investing March 2012, Is Global Listed Infrastructure a Defensive Asset? September 2012, and Infrastructure and Income April 2013). However, having such a significant portion of a cohort affected does mark this occasion out. Several global fixed-income managers have also been similarly affected as Exhibit 2 shows; focusing on Australian bond strategies just helps to sidestep the potential complications of currency hedge losses.

Likely temporary, but stay attentive

It's understandable to see this and question the role of traditional bond funds to generate income. It is an unfortunate development, but one that's ultimately temporary. These funds will accrue coupon income, which will eventually outweigh realised capital losses and allow distributions to resume.

Exhibit 2 Income Distributions From Qualitatively Rated Funds in Bonds—Global by Financial Year

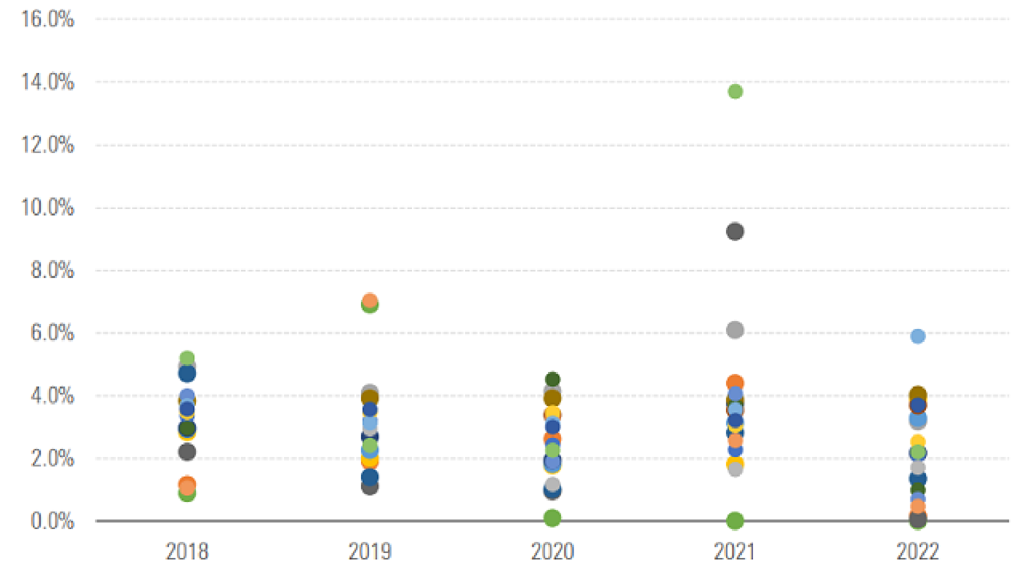


Source: Morningstar Direct. Data as of 16/11/2022.

Estimating when this may occur is complicated. For starters, each fund will have its own level of capital losses to recoup. Moves in interest rates and fund flows can also influence proceedings. Further delays could ensue if interest rates rise considerably further or if funds experienced sizable outflows (leaving it with a smaller assets base from which to claw back the accumulated dollar value of realised capital losses). On the other hand, the higher starting point for yields (especially compared with mid-2021) allows more leeway to withstand such moves.

Meanwhile, many credit and unconstrained fixed-income strategies encountered much less disruption to distributions during 2021-22. This shouldn't be too surprising. Many had a higher starting yield than traditional Australian and global bond index-relative portfolios leading into the second half of 2021 (mainly by taking more credit risk). Drawdowns were also often shallower by virtue of having less interest-rate risk. Figure 3 shows the income returns for funds we cover in these categories.

Exhibit 3 Income Distributions From Qualitatively Rated Funds in Diversified Credit and Unconstrained Fixed Income by Financial Year



Source: Morningstar Direct. Data as of 16/11/2022.

Distributing income under these circumstances doesn't make these strategies better than the group of index-relative funds. Rather, it underlines the difference in risk characteristics. In this case, sharply higher government-bond yields caused problems for duration-sensitive funds; a severe risk-off event may prove problematic for more credit-oriented portfolios.

For instance, AB Dynamic Global Fixed Income 40260 and Payden Global Income Opportunities 19589 didn't distribute any income during the first quarter of 2020 when the coronavirus pandemic struck. Meanwhile, ongoing struggles in emerging markets has caused Franklin Templeton Multisector Bond 17390 to hemorrhage losses and distribute little income from 2020-22.

For those who prioritise income, being attentive to the different factors that can affect distributions, both within and outside of a fund manager's control, can help set appropriate expectations when unforeseen circumstances materialise.

Tim Wong, CFA is a Director, Fixed Income Strategies at Morningstar Australasia. Firstlinks is owned by Morningstar. This article is general information and does not consider the circumstances of any investor. This article was originally published by Morningstar Manager Research.

Three retirement risks and how to navigate them

Peta Tilse

More than 20% of Australians believe they won't achieve their desired retirement standard of living, and half of those who are currently working admit they are unsure how much they will have, or need, when they retire. Some of the risks facing Australians who are nearing, or who are in, retirement are outlined below - as well as several ways to mitigate each of these.

The risks

The 2022 Natixis Global Retirement Index (GRI), now in its tenth year, is a multifaceted research tool that examines the factors driving retirement security. The 2022 GRI identifies three key risks - inflation, interest rates, and longevity risk.

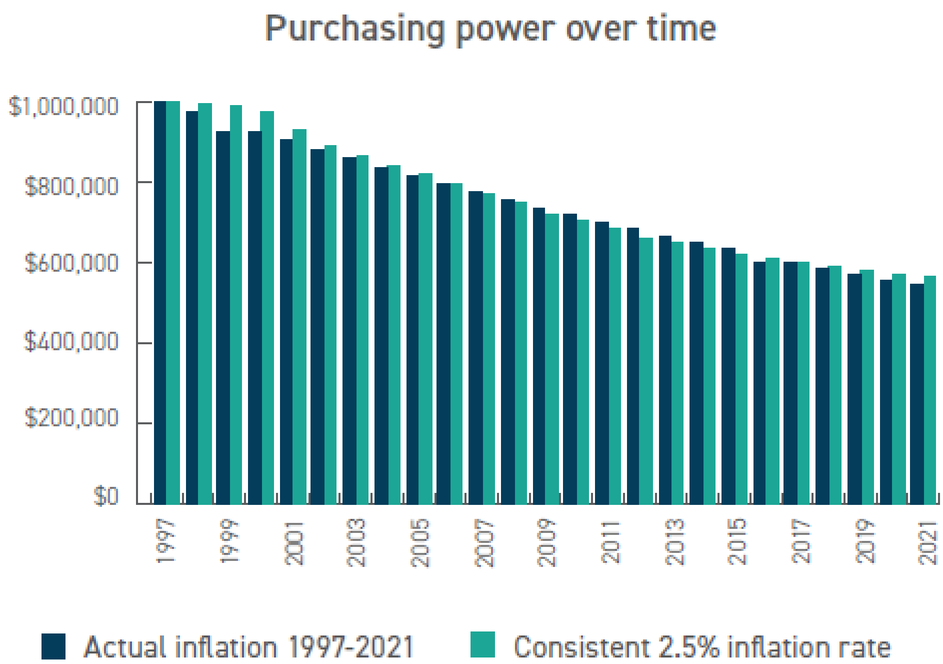
1. Inflation

If you were unaware of what inflation was prior to 2022, you undoubtedly know what it is now. Simply put, inflation refers to the average price increases over a given period, typically a year.

The measure of inflation and deflation - the consumer price index (CPI) - rose 1.8% across the September 2022 quarter, and 7.3% annually; this marks the highest annual CPI increase since 1990. Further, the 9.6% annual increase in the price of goods was the highest since 1983. The price of non-discretionary goods and services increased 8.4%, with discretionary goods rising 5.5%.

Inflation can be particularly detrimental to those in retirement, as it not only chips away at savings and investment returns, but it does so to those with limited means to recoup that lost purchasing power.

The Reserve Bank of Australia (RBA) maintains that the optimal target for monetary policy is to achieve an average inflation rate of 2% to 3% over time. However, even when inflation sits within the RBA's target range, it can still be detrimental to savings over the long-term, as demonstrated in the chart below.



2. Interest rates

No Australians are more acutely aware of interest rate fluctuations than those in retirement, as the low rates of the past decade have made it difficult for retirees to generate income from their savings.

Many retirees who were unable to wait for bonds to begin returning a sustainable yield were forced to dip into the principal of their nest egg. This practice puts these people in the difficult position of lowering income expectations, accepting their assets might run out early, or raising risk profiles in an attempt to reduce losses.

However, there is a light at the end of the tunnel. As inflation has spiked across the globe, central banks have raised interest rates.

In Australia, the RBA has raised rates across the last six consecutive monthly interest rate decisions - from the historically low 0.10% in May to 3.1% this month.

However, raising rates, even quickly, is not an instant fix for spiking inflation. The RBA's forecast is for CPI inflation of 7.75% this year, 4% in 2023 and 3% in 2024. Retirees relying on fixed income investments are not quite out of the woods just yet, as nominal bond returns are unlikely to outpace inflation for positive real returns for some time.

3. Longevity risk

Medical, economic, and societal advances mean people are drastically outliving life expectancy estimates from this time last century. While longevity is unequivocally good news for individuals, living a longer, healthier life requires people to have more financial resources.

For example, if you are currently 65 years old, your life expectancy at birth was around 68 for males and 74 for females. But due to significant social and medical advancements since the 1950s - when these estimates would have been made - healthy men and women in their 60s are now statistically expected to live for another two decades.

Longer lifespans mean many are faced with longevity risk, whereby a retiree runs out of money because they have lived longer than expected. The challenge becomes maintaining a comfortable, desired retirement lifestyle, while ensuring you will have the means to do so for the rest of your life.

The good news

While the three risks outlined above are daunting, and not to be taken lightly, there are few better countries to approach these challenges than Australia. Australia ranked fifth in the GRI's rankings for global retirement security, behind only Norway, Switzerland, Iceland, and Ireland.

Australia ranked eighth in the 2012 GRI – remaining consistent over the decade - before jumping from seventh in 2021 to fifth in 2022. Scoring consistently high in health, quality of life, material wellbeing, and finances in retirement year-on-year, Australia and its well-rounded approach to retirement arguably sets the standard for much of the rest of the world.

Navigating the challenges

There are a number of ways investors can safeguard against the above risks and maintain their desired quality of life in retirement.

Make a plan

A November 2020 Australian Government report into retirement planning, saving, and attitudes found that many respondents were unprepared for life beyond work, with 68% of respondents admitting they had never considered how much they would need for retirement.

The majority (80%) of the remaining 32% of respondents who had estimated a retirement savings goal understood how much they needed to save per year to reach this goal, with 60% changing their behaviour after calculating how much they needed for retirement.

These statistics show the importance of planning. Understanding what is required to achieve your desired lifestyle in retirement will greatly help you to put together an accurate plan. There are countless resources available to help you, including the Moneysmart retirement planner and Cromwell's 'Countdown to Retirement'.

Don't underestimate the impact of inflation

It's important to understand the impact of inflation on your purchasing power, and the way in which it can chip away at savings, as well as understanding its impact on your investment portfolio.

Inflation above anticipated levels is generally considered detrimental to stocks and fixed income investments; however, real assets, including real estate, land, precious metals, commodities, and natural resources tend to fare well in times of high inflation.

Income from real assets is generally linked to inflation. For example, it is common for commercial real estate leases to have annual rent increases tied directly to increases in inflation - this is why commercial property is regarded as an inflationary hedge.

Understand your investment income

Understanding your investment income is straightforward, but it is the most important factor throughout retirement. Not only should you understand your income sources, but it is important to set realistic expectations that will allow you to live comfortably.

Retirement casts a new light on investment opportunities, particularly relating to an investor's risk profile and unfamiliar tax scenarios: it is important for investors to look beyond familiar investment options to diversify and spread their risk across multiple sectors, geographic regions, and asset classes. Without a regular source of income, retirees need to minimise their longevity risk by looking for investments that offer both returns and capital growth.

Don't underestimate how long you will live

Consider this: The retirement age in Australia is generally understood to be 67 years old, which is when an individual qualifies to receive Government Age Pension benefits - the main source of income for most retirees. However, according to the ABS, the average retirement age of all retirees as of May 2020 (the most recent information available) was 55.4 years, with 55% of people over 55 retired.

By the time most individuals reach 65 years of age, they are now expected to live for another two decades. This means a person retiring at age 55 must stretch their finances for, on average, another 30 years.

It's important to note this is merely an average, many will live far longer than two decades from their 65th birthday. Therefore, it is vital to overestimate your own life expectancy, rather than underestimate it.

Consider unforeseen expenses

With luck, unforeseen expenses can be kept to a minimum; however, it is important to factor these in. Whether these costs are associated with real estate maintenance or repairs, having to care for a loved one in a crisis, or looking after your own personal wellbeing, unforeseen costs can be significant and need to be a key consideration.

Peta Tilse is Head of Retail Funds Management at [Cromwell Funds Management,] a sponsor of Firstlinks. This article is not intended to provide investment or financial advice or to act as any sort of offer or disclosure document. It has been prepared without taking into account any investor's objectives, financial situation or needs. Any potential investor should make their own independent enquiries, and talk to their professional advisers, before making investment decisions.

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A fine effort in a game of fine margins, but where to now?

Graham Hand

An early-morning casual observer of the thousands walking away from the fan site at Darling Harbour in Sydney following the World Cup game between Australia and Argentina would have wondered who won. While people were not boisterously celebrating, there was an air of contentment, happiness even, at a job well done.

On the free public transport, comments flowed about 'pride' and 'we came close' and players such as Souttar and Leckie and Behich are now known to millions more people than just a few weeks ago.

What struck me about the crowd was that a minority wore Australian football jerseys. Although up at 5am to watch the game, these were not die-hards. They were converts, enjoying the thrill of Australian success that few expected, least of all the people who know the team well.

Yes, the fans will be back for the Women's Football World Cup in 2023, where Australia has a much better chance of winning than the men will ever have. Probably Australia and the US are the only two football nations in the world where players in the women's team are better known than the men's. The challenge is not filling the stadiums for the international games in 2023. The greatest difficulty is to convert fans to regular attendees of the A-League.

Achieving above and beyond

I'm biased and I'll lay my tickets on the table. I love watching the A-League. I am a Foundation Member of Sydney FC and rarely miss a home game. I have travelled to three World Cups following the Socceroos, in Germany, South Africa and Brazil. I have played football for six decades, and only a few weeks ago, participated in the Pan Pacific Masters. I watched every qualifying game for WC2022, where we missed out on automatic inclusion due to poor performances that led to the playoff game against Peru. Enter Sydney FC's goalkeeper, the 'grey-Wiggle' Andrew Redmayne, whose antics we have watched for years, to pull the team out of the fire as the final qualifier for Qatar.

With all this background knowledge, and especially after the shellacking from France in the first game of men versus boys, I expected the worst. In a team made up mainly of journeymen and youngsters, only one plays in the top five leagues in the world in England, Italy, Spain, France and Germany, and even Awer Mabil rarely starts for his Cadiz club. Our best two players, Martin Boyle and Adjin Hrustic, were injured, and vital defender Harry Souttar had played only a few minutes in the last 12 months for his club Stoke City, currently 17th in England's second-tier Championship. Players coming from the A-League, St Mirren, Hearts, Dundee and a string of lower division teams were not wanted by the big clubs of Europe. Up-front we were led by Mitch Duke from the Japanese second division, and midfield was driven by Jackson Irvine from division two in Germany. One of our few high-profile stars, Tommy Rogic, was unavailable, and when coach coach Graham Arnold offered places in Qatar to Sydney-born Cristian Volpato and Perth-raised Allessandro Circati, both refused the offers to leave their options open to play for Italy, who did not even qualify.

But Arnold believed, and made the team bigger than the sum of the parts. The generation of 2022 is etched into football history as the first to win two games at a World Cup, eclipsing the record of the legendary 2016 team that featured a plethora of top-league players. Memorable goals in each of four games and two clean sheets make up the best-ever Australian performance and football brought this multi-cultural nation together.

There is no bigger global stage

No other sport can compete with football for a genuine global world cup. There are more member countries of FIFA (209) than there are of the United Nations (193). To reach the final 16 of a Football World Cup is an outstanding achievement, which nations such as Germany, Belgium and Italy where there are no genuine competitor sports all failed to advance in 2022.

As the biggest stage in sport, a single moment can define a player's career. It's unfair that a professional footballer can toil away for a decade in lower leagues, with maybe a season or two in the sun, and nothing will define a career more than a few seconds at a World Cup.

Even at a top level, David Seaman played 75 times for England and 325 games for Arsenal, including the league-winning 1991 team that conceded only 18 goals in 38 games, an amazing record. Yet most England fans remember him for one mistake against Brazil's Ronaldinho at the 2002 World Cup. Zinedine Zidane was an extraordinary player but a single incident when he was sent off for headbutting Italy's Materazzi in the 2006 final lives long in the memory. Diego Maradonna enjoyed many achievements but the 'Hand of God' goal in 1986 is the most famous.

For Australia, John Aloisi's qualifying penalty goal against Uruguay in 2005 to break the drought of missing the World Cup finals for 31 years is the biggest moment in Australian football. And now, the World Cup goals by Craig Goodwin, Mitch Duke and Matthew Leckie will forever be the high points of their careers.

But it's a game of fine margins. If Aziz Behich's dazzling run past four Argentinian defenders had not been blocked at the last gasp by Lisandro Martinez, it would have gone down as one of the great goals in World Cup history, etched forever into Australian folklore. Behich will think of that moment every day for the rest of his life, yet a year from now, recent converts will not remember his name, and probably forget the incident. Same with the final strike of the game, the shot by Garang Kuol, just saved by the goalkeeper. He is only 18 with wonderful potential ahead, but it would have been the goal of his career. Hit a post, a fingertip from a keeper, an unfair referee decision. Margins measured in millimetres define World Cup delight or distress.

(And yes, I'm choosing here to ignore the disgraceful corruption at FIFA and the lack of human rights in Qatar which are more important issues).

Why are Australians thrilled by the exit at R16?

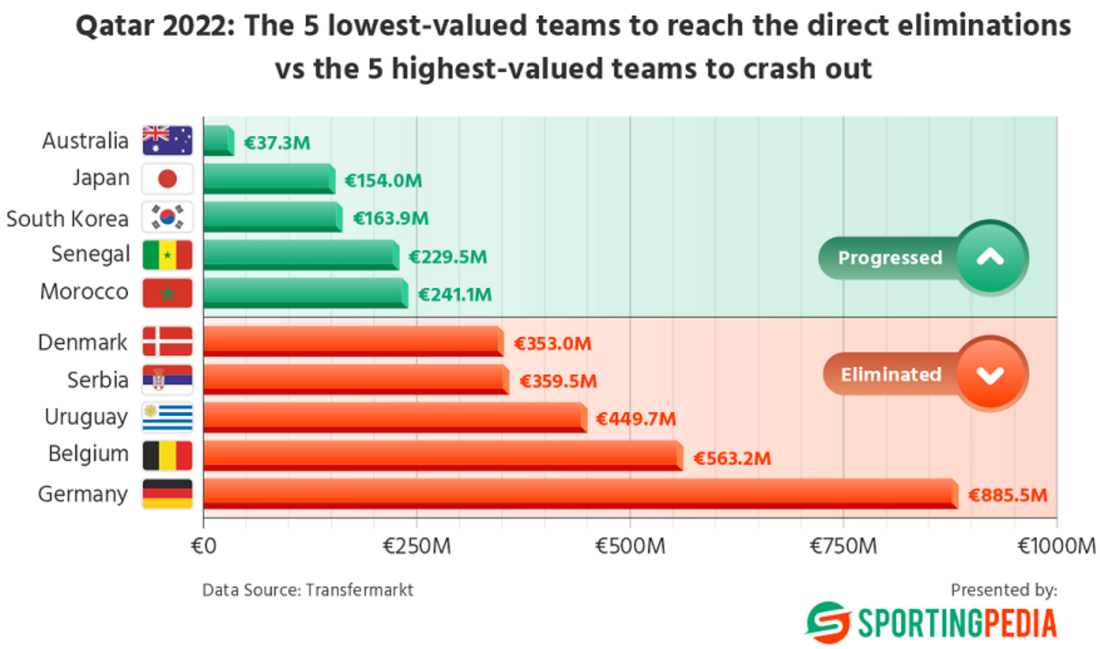
When the Australian cricket team was eliminated from the recent T20 semi-finals, it was considered a failure. Imagine if the Australian rugby league team had lost the so-called world cup final to Samoa. Another failure. Same with teams from sports such as field hockey and union. The rugby league world cup included 16 nations, but the Lebanese team came from Sydney's western suburbs, and nobody seriously thinks Greece, the Cook Islands and Ireland field a decent team. There are only 12 full ICC members playing test cricket. While rugby union offers a better global exposure, it's football first and daylight second.

The reason we celebrate Australia's achievement in 2022 is due to expectations. After struggling to qualify against Asian teams, most people thought Australia could not progress through the group stage. Australia entered the event ranked 38th in the world, into a group containing France (4th), Denmark (10th) and Tunisia (30th). Winning two games is a welcome and unexpected achievement. As Mo Gawdat says in his book, *Solve for Happiness*:

"Happiness is equal to or greater than the perception of the events in your life minus the expectations."

He says that happiness depends on whether you are satisfied by an outcome, and with most expectations so low, the 2022 results are a joy. It is the fans of teams such as Germany, Belgium and Spain who are miserable because their expectations were high. In fact, a Brazilian, French or English supporter would be upset if their team is eliminated in the quarter finals despite advancing further than Australia.

Consider the estimated value of the teams that progressed versus those eliminated, and it emphasises how Graham Arnold pulled the best from his modest resources.



The impact on the A-League

So now we have the obvious calls that the A-League must capitalise on the country's new-found love of football, in the same way the great team of 2006 should have been a springboard for the game.

We have been here before. In 1997 when Northern Spirit played its first home game in front of nearly 19,000 fans at a packed North Sydney Oval, it felt like a new beginning. Each Friday night of that season, local office workers would enjoy a beer or two in a pub after work then wander up the hill to watch Spirit in a great atmosphere with fireworks and music. Players included Graham Arnold, Robbie Slater, Mark Rudan and Mark Milligan, and Arnold became player-coach in the second year. It truly looked like football had arrived, but each subsequent season saw decline. By 2004, the entire professional league had imploded.

And along came the A-League, which is now 18 years old, and there was much promise in the early years, driven by the high profile of Dwight Yorke. Yet far from thriving and growing each season, recent years have seen disheartening declines in crowds, sponsors, media coverage and television audiences. It is often difficult to find the results as newspapers fill the sports pages with trivia on AFL and rugby league players.

The decline is a mystery when the local professional product is good and games are highly competitive. While most fans of the game tune into the major overseas leagues on pay TV, nothing beats the whole-of-game perspective of live football. Attending a game allows the fan to watch the movement of individual players and the team formation far better than relying on the cameraman to pick up the nuances of the game.

It baffles me how few of the people who love playing football attend games in person. Football is the highest participation team sport in Australia, with estimates of up to two million Australians participating, yet a good weekend for the A-League is 100,000 fans across all games.

For the popularity of Sydney FC, the closure of Allianz Stadium for its rebuild and the pandemic restrictions on games were twin disasters. For the four years of construction, the team was forced to play at other grounds, mostly Kogarah Oval in the south, which alienated the supporter base in the north and east. In the first year of the Alessandro del Piero signing in 2012/2013, Sydney's average crowds reached a record of 18,944. In 2021/22, it was a miserable 5,045. It was the same around the country, with a few thousand turning up to watch the new teams, Macarthur and Western United. Heaven knows why they were accepted into the competition when they can muster such a tiny fan base. Here is football at the highest standard in Australia and the crowds are dismally small.

Go to any junior level football game in Australia such as the top under-15 teams and the level of talent is staggering. It looks like it would rival the best in the world, and it's been that way for a long time. What happens to all those kids when they turn 18? A few make it into the ranks of the A-League, a few go overseas, but most seem to drift away.

The challenge is to bring the massive enthusiasm of the last few weeks into the local competition. There were eight A-league players in the Socceroos squad, including goal scorers Leckie and Goodwin, and they will return to playing immediately. On Saturday, four of the Socceroo squad with feature at the new Allianz Stadium. Their fierce competitiveness and considerable skill in Qatar should demonstrate that these players and dozens like them are well worth watching live. It's not the English Premier League and maybe not even the second tier Championship, but it's not far off the next level.

The returning Socceroos are issuing challenges for the A-League to capitalise on the World Cup success. Aziz Behich said:

"What we have done right now, it should be a no-brainer. We've accomplished something with this group that no other Socceroos team has ... Us as players, on our side, we've done our part. Those people know who they are, but this should be a massive stepping stone for football in Australia to go forward. I can't see why it shouldn't. I'm hoping we've inspired the next generation to coming through that's it's possible to match the best in the world, even being Australian.

Obviously it puts the A-League on the map, we had a fair few boys from the A-League, this is the perfect moment for Australian football to step forward and make sure the sport gets more recognised back home."

It sounds like waving a magic wand if there is no strategy behind it. The Socceroos brand is clearly enhanced, the public adores the success, but how many parents and young kids will go to the next game at Campbelltown Stadium and watch Macarthur play Wellington? A crowd of 5,000 would be a great result. Sure, the next home game for the Socceroos in late March 2023 will attract an admiring crowd, and the 2023 Women's World Cup will be amazing, but what of the A-League a year from now?

Thousands of kids will be inspired by the two World Cups, and a family pass to watch Sydney FC is only $65. But football authorities need to channel some of the US$13 million paid to Australia for its Qatar adventure into lowering the cost of playing junior football, which can run into thousands of dollars a year for the better players. Many youngsters drop out because their parents cannot afford it. Football needs to make the pathways into the game and retention a top priority, not just bask in top-level glory once every four years.

The facilities at the rebuilt Allianz Stadium are excellent, as would be expected at a cost of nearly one billion dollars. Western Sydney Wanderers is more competitive and crowds are improving. Melbourne Victory played well last year and supporters are coming back. Wellington is playing in New Zealand again. While not in the same league as the 60,000 who turned up for a local derby in 2016, an encouraging 33,000 watched the first Sydney derby at the new stadium. But teams in Perth, Brisbane, Newcastle and Central Coast face falling crowds and a disappointing lack of local enthusiasm.

Yes, let's seize the moment as crowds return in numbers. Yes, we love the Socceroos and the drama of the World Cup every four years (or every two years including the women), but unlike league and AFL, most of our stars do not play here. Mind you, that's the same in South America and fans go wild for River Plate and Boca Juniors despite never seeing Messi play for a local club. Where Australian football has a unique problem is the competition from four other sports, especially league and AFL, and this is not going away anytime.

Graham Hand is Editor-At-large for Firstlinks.

12 tips for 'aged care season'

Rachel Lane

Some call it the silly season, others call it the festive season, but I call this time of year 'aged care season'. It's a time when families come together, maybe for the first time since last Christmas, and notice that Mum or Dad or both need some (or a lot) of care.

So, if your family gathering turns into a conversation about "what are we going to do to help Mum?", here are my tips for navigating aged care season.

1. Talk about it

Conversations about care can be hard. Maintaining good communication and having a 'with you' rather than 'to you' attitude can it easier for everyone.

There is a wide range of accommodation and care options. Sometimes older people feel like a conversation about aged care is a slippery slope to a nursing home. But having these conversations and planning early can be the best antidote to needing to move into residential aged care. Whatever the choices are about where and how you wish to access care, starting your research sooner rather than later normally means you have far more choices.

2. Work out where and who

Whether you are considering moving into a granny flat with family, downsizing to a retirement community or moving into residential aged care, you need to do your research about where you want to live and who you want to live with.

Most retirement communities will have opportunities for you take a tour, join in an activity or attend an open day – gather as much information as you can from the staff and from the residents who are living there. When it comes to granny flats, it's important to remember that living with family is not the same as sharing Sunday dinner or a holiday. Think about the dynamics of the house now and in the future and make sure you have a written agreement.

3. Get your care needs assessed

The first step in accessing government funded aged care is to have your care needs assessed, which starts with a call to MyAgedCare.

To receive Commonwealth Home Support Programme (CHSP) services you will need a Regional Assessment Service (RAS) assessment. To get access to a Home Care Package, a respite stay, or a permanent move to an aged care facility, you will need to have an Aged Care Assessment Team (ACAT) assessment (known as ACAS in Vic). The assessments are free and easy, but you can be waiting many weeks, sometimes months, at busy times.

4. Look into home care

The great thing about home care is that it can be delivered wherever you call home. There are a range of home care services, including Commonwealth Home Support Programme (CHSP), Home Care Packages, Department of Veteran's Affairs (DVA) services and private care.

While many people think of home care as a regular service you can access more than just your regular care. Home care services can also provide you with equipment and aids, home modifications, respite services, home and garden maintenance and social activities.

5. Book in a break

A Respite stay in an aged care home can give carers a much-needed break and is also a great way to 'try before you buy'. A stay of 2 or 3 weeks is normally long enough to get a good idea of the activities, the other residents, the food and, most importantly, the care.

Respite is also very affordable as there are no accommodation costs or means tested fees - you only pay the Basic Daily Fee, currently $57 per day plus any extra services you receive like wine with meals, hairdressing, massage, or Foxtel.

6. Consider village life

Retirement villages are becoming a popular choice because they can provide the independence to do what you can for yourself, with care and support for things that you can't (or don't want to) do.

When it comes to the financial arrangements, look at the ingoing, ongoing and outgoing costs. Don't just compare based on the upfront price or the exit fee. Other important considerations include whether you need to pay stamp duty, how the ongoing costs are determined and how much money you will receive and how soon after you leave (some are subject to a buyback while others rely on the next sale). If you are going to receive care from the village, ask for a menu of their services and prices.

7. Be prepared for pension consequences

Moving into a granny flat, retirement community or aged care home normally involves selling your current home. If you receive a means-tested pension such as the Age Pension, make sure you understand the impact of your move on your pension and other entitlements such as rent assistance and concession cards.

For many people their current home is worth more than their new home. This financial downsize can cause a reduction (or loss) of pension. It is often due to the assets test which reduces your pension by $7,800 per year for each $100,000 over the threshold and can have a terrible effect on your cash flow.

8. Consider supersizing your superannuation

Downsizers over the age of 60 who have lived in their home for at least 10 years can qualify to make a superannuation Downsizer Contribution of up to $300,000. If you are a couple, you may be able to contribute up to $600,000.

You can only access the scheme once (once accessed you cannot use it again on another property) and your contribution will need to be made within 90 days of your home selling (unless there are extenuating circumstances) with the appropriate downsizer contribution form completed for your super fund. The contribution doesn't count towards your contribution caps and there is no requirement that you purchase a new home. It's important to note that your superannuation is included in Age Pension means tests once you reach pension age.

*Legislation is currently before the Senate to lower the contribution age to 55 and provide a 2-year pension asset test exemption and apply the lower deeming rate (0.25% p.a) on the proceeds that will be used for your next home.

9. Get the timing right

If you are a couple, then the timing of your move into aged care can make a significant difference to your costs. Because your home is an exempt asset while your partner lives there moving together or separately (even a day apart) can create very different outcomes.

Moving in separately can enable the first person to qualify as a "low means resident" and have some or all their accommodation cost subsidised by the government. Before you employ such a strategy make sure you are happy with the accommodation, and you have crunched the numbers on what it will mean for your pension and care costs now and in the longer term. It may sound crazy, but it is possible for low means residents to end up paying more than the market price.

10. Have a trusted attorney

Having an Enduring Power of Attorney enables a trusted person or people, rather than a tribunal or a court, to make decisions for you when you can't.

Powers of attorney can be made for financial decisions, medical decisions and lifestyle decisions. You may wish to nominate the same person or different people for different roles. Make sure you have one.

11. Estate plan

A good estate plan is more than 'just a will' – it considers the assets that will be part of your estate and those that won't and provides a clear document of your wishes.

Your estate plan doesn't have to be complicated, although there can be benefits to having a testamentary trust (which is where your will creates a trust for distributing your assets and income). The most important thing is to speak to a legal professional about who you do (and possibly don't) want to receive your assets when you are gone.

12. Get good advice

Whether it's a granny flat, a retirement community, home care or an aged care home crunching the numbers can be complicated. Advice from a Retirement Living and Aged Care Specialist® will ensure you understand all the options available to you, the strategies you can use to make it more affordable and that there are no nasty surprises down the track.

Rachel Lane is the Principal of Aged Care Gurus where she oversees a national network of adviser dedicated to providing quality advice on retirement living and aged care. She is also the co-author of a number of books with Noel Whittaker including the best-seller 'Aged Care, Who Cares?' and their most recent book 'Downsizing Made Simple'. To find an adviser or buy a book visit www.agedcaregurus.com.au.

Why emerging markets have reached an inflexion point

James Johnstone

Emerging market indices have performed poorly over the past 10 years. Economic growth in these markets started to stall even before Covid and that prompted many investors to head for the exits.

But the decade-long sell-off has led to attractive valuations at a time when a commodity super-cycle could pave the way for outperformance.

Transition metals and emerging markets

A major theme in recent years is decarbonisation. Major economies are beginning to wean themselves off fossil fuels and are looking for new ways to curb emissions, with many aiming to achieve net zero between 2030 and 2050.

By current estimates, US$56 trillion in incremental infrastructure investment is needed to meet net zero by 2050. This implies an average investment of US$1.9 trillion annually.

Central to achieving these emission targets will be transitioning our existing energy infrastructure to cleaner fuel sources, which places many emerging market nations in an enviable position.

That's because the transition away from fossil fuels is likely to be metal intensive. Replacing existing fuel sources with renewable electricity and manufacturing batteries to store this power will require large volumes of metals such as copper, lithium, and rare earth elements.

Where are we going to find those metals? There's a little bit in Australia and there's a little bit in Canada, but the vast bulk of new metal discoveries we're going to need to make will be in Africa or South America.

Demand for these metals could begin to outpace supply, creating bottlenecks and price hikes – all to the benefit of producing nations. The scarcity of these resources also places significant power into the hands of local governments to raise tax revenues.

Peru and Chile, collectively producing 35% of global copper, provide a good example of this. However, neither Peru nor Chile are comfortable places to put more money. It costs billions of dollars to invest there.

If you're Glencore or Goldfield – who are commissioning to put US$2 billion, US$3 billion or US$4 billion into each hole in the ground in Chile - they have to sit down with President Boric and say, 'what's my royalty rate?', 'what's the taxation rate?' And the threat of expropriation is high.

While this does present risks to producers, I believe that these risks have been priced in.

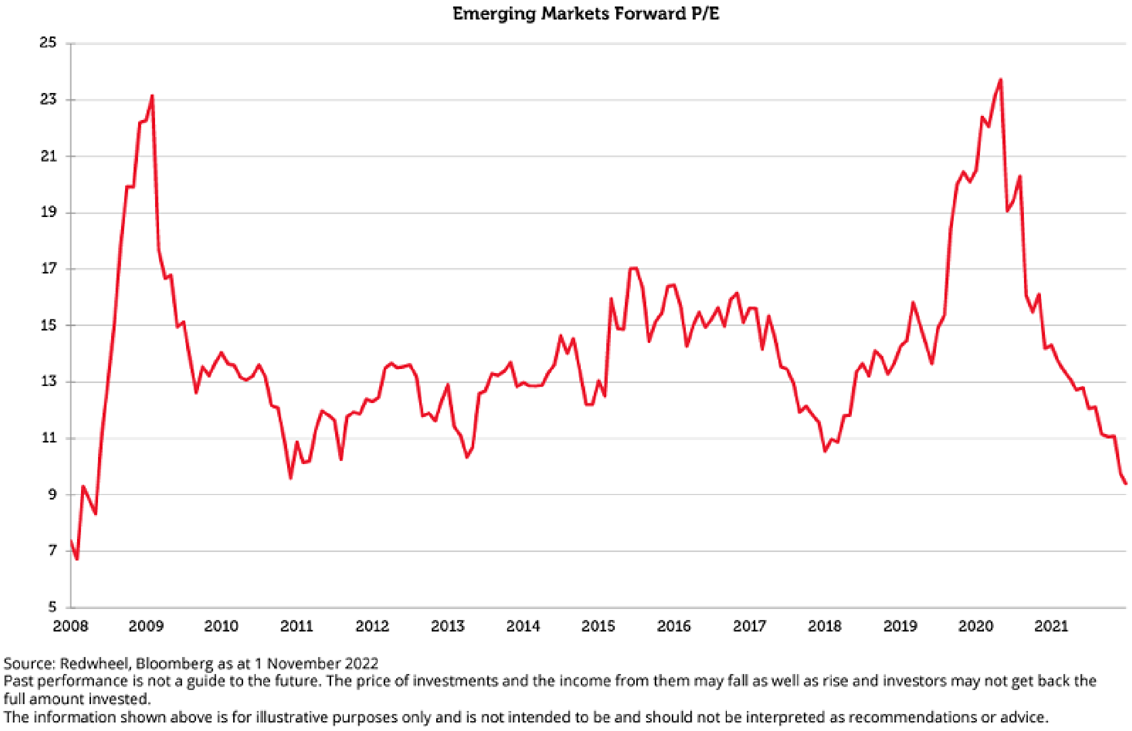
Attractive valuations versus developed markets

The demand for metals is expected to support the growth of emerging markets and widen the real GDP growth differential with western markets. This marks forward price-to-earning (P/E) ratios for the sector look attractive.

In part, this is attributable to the commitment of emerging nations to maintain tight monetary policy over the past decade. These economies have largely avoided using unconventional policies (such as quantitative easing). They also raised rates before developed economies – and remain ahead of the curve.

As developed economies struggle with soaring inflation and interest rates, monetary constraint has made emerging market economies resilient.

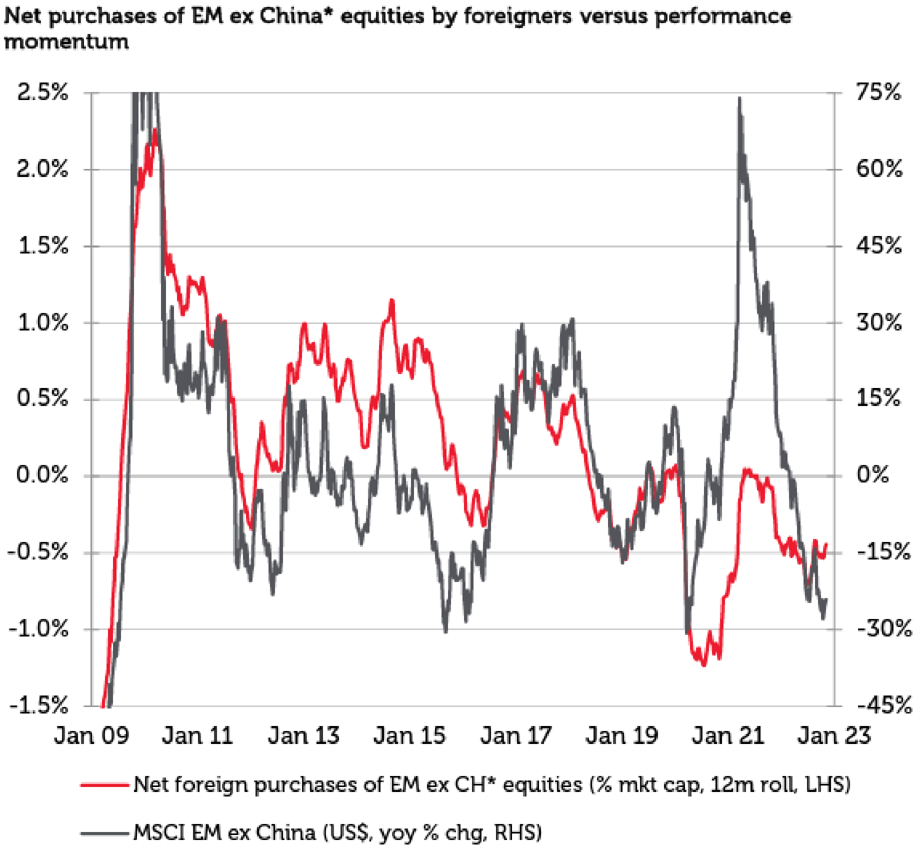
Attractive emerging markets forward price to earnings ratios



Emerging markets have fallen to valuation levels not seen since 2008 while earnings continue to climb.

Yet despite attractive valuations, international capital flows into emerging markets are close to record lows. Since the early 1990s, buying emerging markets at times when most investors are selling has proven to be a successful strategy.

Investor capital has exited emerging markets creating contrarian opportunities



**Korea, Taiwan, India, Brazil, Mexico, South Africa, Thailand, Indonesia, Philippines, Malaysia, Turkey. Source: CLSA, National Stock Exchanges, WFE as at 20 October 2022. The forecasts and estimates are based upon subjective assumptions about circumstances and events that may not yet have taken place and may never do so. The information shown above is for illustrative purposes only and is not intended to be, and should not be, interpreted as recommendations or advice.*

History may repeat

If I had told you back in 2002 to buy emerging markets, you would've thought I was mad. Emerging markets had been through an incredibly difficult crisis. The Indonesian economy had collapsed in 1997. The rupee went from 2,000 to the US dollar to 18,000 to the US dollar in the space of six months. The Thai baht collapsed. The Korean won collapsed.

But emerging markets did exactly what we thought they were going to do. Emerging market GDP grew. The emerging market growth story worked. China raised 750 million people out of poverty. Indonesia's GDP has gone from US$200 billion to US$1.1 trillion. India is now a larger economy than the UK.

With that context in mind, the emerging market selloff could represent a good entry point for investors.

James Johnstone is Co-Head of Emerging & Frontier Markets at Redwheel, a Channel Capital partner. Access to the RWC Global Emerging Markets Fund is available to Australian investors via Channel Capital, a sponsor of Firstlinks. This article is general information and does not consider the circumstances of any investor.

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SMSF trustees who question their capacity and look for options

Elizabeth Wang

John and Mary have an SMSF with a corporate trustee and are the current members of their SMSF.

They are both seriously questioning their capacity to continue operating the SMSF as trustees and directors and have an enduring power of attorney where they have appointed the NSW Trustee and Guardian to act as her attorney.

John and Mary want to know whether the NSW Trustee and Guardian can be appointed as a director of the corporate trustee of the SMSF when Mary no longer has mental capacity.

The definition of a self-managed superannuation fund contained in s17A(1) of the *Superannuation Industry (Supervision) Act 1993* (Cth) ('the SIS Act') applies to funds with more than one member.

It states among other things that if the trustees of the fund are individuals that each individual trustee of the fund must be a member of the fund and each member of the fund must be an individual trustee.

On the other hand, if the trustee of the fund is a corporate trustee, then each director of the corporate trustee of the fund must be a member of the fund and each member of the fund must be a director of the corporate trustee.

Section 17A(3) of the SIS Act provides some exceptions to this. It provides that an SMSF will continue to qualify as a self-managed fund if the "legal personal representative" is a trustee of the fund or a director of the corporate trustee of the fund during any period when the member is under a legal disability.

The term "legal personal representative" is defined in the SIS Act to include "the executor of the will or administrator of the estate of a deceased person, the trustee of the estate of a person under a legal disability or a person who holds an enduring power of attorney granted by a person".

In the event that they no longer have mental capacity, a legal personal representative must be appointed as a director of the corporate trustee of the fund so that the fund continues to satisfy the definition of a self-managed superannuation fund under s17A of the SIS Act.

The question is whether the NSW Trustee and Guardian can be appointed as a director of the corporate trustee of the SMSF when John and Mary no longer have mental capacity.

The SIS Act defines an "individual trustee" to mean "an individual who is a trustee of the fund".

Section 201B(1) of the *Corporations Act 2001* (Cth) ("the Corporations Act") states that only an individual who is at least 18 may be appointed as a director of a company.

The NSW Trustee and Guardian does not meet the definition of an "individual trustee" as defined in the SIS Act and cannot be considered an "individual" for the purpose of s201B(1) of the Corporations Act. Instead, it is a statutory corporation, and its status is that of a NSW government agency.

Therefore, the NSW Trustee and Guardian cannot be appointed as a co-trustee of an individual trustee fund or as a director of a company. Where the trustees of the fund are individuals the NSW Trustee and Guardian may formally appoint either a delegate or its delegate may sub-delegate an individual as a co-trustee of an individual trustee fund.

Solution 1

As John and Mary's SMSF is a corporate trustee structure, the NSW Trustee and Guardian may also formally appoint a delegate, or its delegate may sub-delegate an individual to act as a director who is authorised to exercise in part the powers and functions conferred on the NSW Trustee and Guardian.

It is important to note that s11(1) of the *Trustee and Guardian Act 2009* (NSW) ("the Trustee and Guardian Act") empowers the NSW Trustee and Guardian to act in its capacity as a trustee, agent or attorney. Section 11(3B) of the Trustee and Guardian Act also permits the NSW Trustee and Guardian to "prepare instruments that create powers of attorney and carry out professional services in connection with powers of attorney".

Section 57(1) of the Trustee and Guardian Act reinforces that the NSW Trustee and Guardian "has, and may exercise, all the functions the person or patient has and can exercise or would have and could exercise if under no incapacity".

The NSW Trustee and Guardian may rely on sections 11(3B) and 57(1) of the Trustee and Guardian Act to create an enduring power of attorney (as required under s17A(3)(b)(ii) of the SIS Act) on behalf of John and Mary to appoint an individual to act as their enduring attorney so that the appointment satisfies the definition of a legal personal representative under the SIS Act.

Solution 2

Alternatively, the NSW Trustee and Guardian could delegate an individual to take up the role as director of the corporate trustee of the fund. The appointment of the individual as a director of the corporate trustee would also need to satisfy the definition of a legal personal representative under the SIS Act for the fund to continue to satisfy the definition of a self-managed superannuation fund.

Conclusion

Importantly, if an individual cannot be appointed who satisfies the definition of a legal personal representative, then their interest in the fund may need to be rolled out of the fund to ensure that the status of the fund satisfies s17A of the SIS Act.

The governing rules of a fund's trust deed should also be reviewed when it comes to who can be appointed as a trustee/director of a fund. The governing rules of a fund will usually mirror the SIS Act requirements in relation to the appointment of a trustee/director of a fund and contain provisions when it comes to who can act as a legal personal representative of a fund and when a person ceases to be a member and trustee/director of a fund.

John and Mary should also refer to the corporate trustee's constitution to determine whether Mary's office of directorship will automatically vacate once she becomes mentally incapacitated. Generally, a person will remain as a director of a company even if they no longer have mental capacity and are unable to exercise their functions and powers as a director. This is somewhat reflected in Chapter 2D of the Corporations Act and seems to suggest that the office of directorship does not automatically cease when a director can no longer exercise their functions, powers, and rights as a director of a company.

Therefore, if the NSW Trustee and Guardian creates an enduring power of attorney which appoints an individual to act as Mary's enduring attorney and that individual satisfies the definition of a legal personal representative under the SIS Act then John, in his capacity as a director of the corporate trustee of the fund, would be required to formally appoint that individual as a director and remove Mary as a director to ensure that the status of the fund complies and satisfies s17A of the SIS Act.

Elizabeth Wang Is a superannuation lawyer with [Townsends Business & Corporate Lawyers]. Please note that these comments are for your consideration only and are provided to assist you in deciding whether to proceed to obtain a formal opinion on the issue. These comments cannot be relied upon by either you or any of your clients until and unless we issue that formal opinion.