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## Editorial

Investors love to extrapolate the recent past into the future. They see the US has outperformed the rest of the world for 15 years and assume that it will continue in future. And they'll wrap a narrative around it by describing the US as 'exceptional' to assure themselves about the future.

Yet, the world isn't static and that makes extrapolation inherently lazy. It's amazing how many people think Trump was solely to blame for the recent market volatility when he was just the trigger for several broader changes taking place.

Zooming out on what's really happening in markets and economies at present, there are four clear trends that are shaping investor portfolios, and are expected to last for a decade or more:

### 1. Politics is driving markets, not economics

The era of economic data driving markets is over. That was the world of globalization that reigned supreme for 40 years. It's no more.

Governments and politicians have taken over. Trump didn't start this because it's been happening for some time.

It's what investment strategist [Russell Napier](#) calls state-directed investment. Governments around the world are directing investments to purposes they want to achieve. Some are calling it re-industrialisation, industrial policy, friend-shoring, and de-risking. It all amounts to the same thing: Government-direct investment.

Trump is the obvious example of trying to force companies to invest money in the US. Yet, it was his predecessor, Joe Biden, who started this.

In Australia, the Labor Government has explicitly told the Future Fund to direct capital towards its priorities, including social housing and infrastructure.

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And with debts levels at record highs around the globe, and markets often not providing finance at acceptable rates for Government-directed projects, national savings are being tapped. The next step with this is deliberately suppressing interest rates, which Trump is already trying to do.

With debt levels expected to increase from already exorbitant levels, politics will drive markets for the foreseeable future.

The problem for institutional investors is that they've never lived in a world where Governments influence markets to this degree and are largely unprepared for the changes afoot.

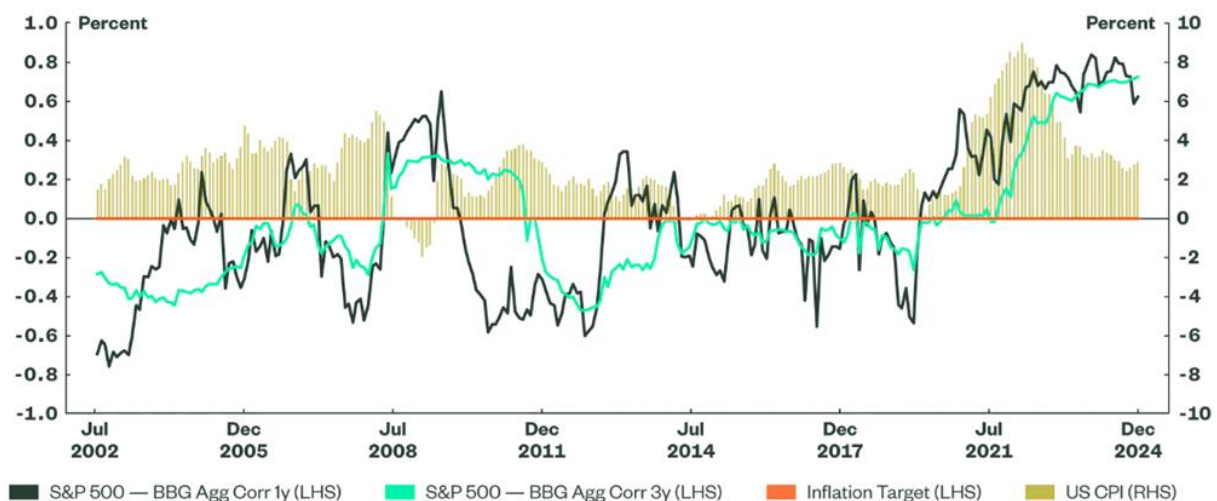
## 2. The 60/40 portfolio really is dead

The traditional 60% equities, 40% bonds portfolio is obsolete.

Since the early 1990s, when stocks went up, bonds usually went down, and vice versa. Bonds provided a nice hedge or ballast when sharp equity pullbacks took place.

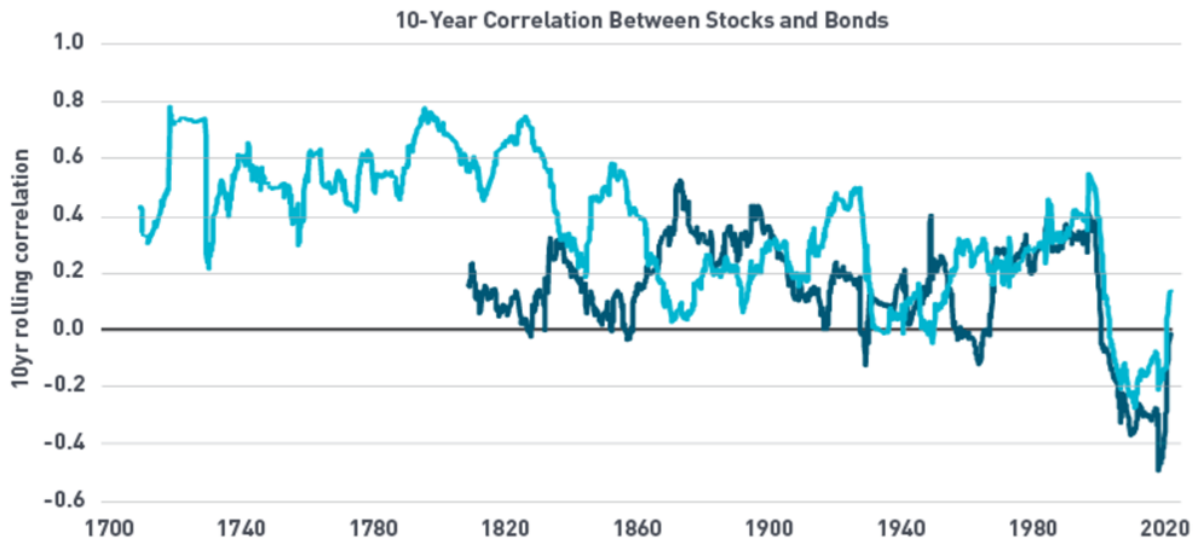
Investor portfolios relied on this inverse correlation between stocks and bonds.

Yet, that correlation broke down in 2021-22 as both stocks and bonds tanked. And more recently following 'Liberation Day' in April, it broke down again. Yes, bonds fell less than stocks in the week after Trump's tariffs first took effect, but they still went down.



Source: FactSet, State Street Global Advisors. Beta is calculated as covariance of two assets divided by variance of market returns; portfolio beta is a weighted average of bonds' and equities' beta (=1 since we use S&P500 as a proxy). Data for calculations are from 07/31/2022 to 12/31/2024.

60/40's problems shouldn't come as a surprise. First, it was always based on a false premise. It took the negative correlation from the early 1990s to 2021 as gospel when a longer thread of history told a different tale. The following chart from Goldman Sachs in 2023 shows that throughout most of history in the US and UK, there's been a positive correlation between stocks and bonds ie. they've generally gone up together and down together. In other words, the 30 years to 2021 weren't the norm; they were an anomaly.



Source: Datastream, Goldman Sachs Global Investment Research. Monthly data from 1711 to September 2023.

Second, 60/40 ignored first principles: both stocks and bonds can be adversely impacted by excessive inflation and systemic risk. Excessive inflation puts upward pressure on bond yields, and consequently, tighter financial conditions can impact corporate profitability, creating conditions for a less favorable equity market. Systemic risk can have similar effects, as witnessed by the recent 'Liberation Day' events.

So, what are investors looking for diversification supposed to do? Well, stocks and bonds should remain the core of portfolios, with some potential nuances:

- Investors can consider having cash and short-term bonds alongside their intermediate- and longer-duration core bond holdings. Cash has diversified portfolios better than bonds in recent years, especially as interest rates have trended up.
- Rotating out of longer-duration bonds or funds and into intermediate- or short duration alternatives can reduce potential volatility during interest-rate spikes.
- Commodities are an option for smaller portion in portfolios. Correlations between stocks and commodities have trended down in recent years. The downside is the volatility in commodity returns.
- It's worth considering gold. Gold isn't an inflation hedge, as 2022 showed. However, it functions as crucial 'insurance' against systemic risks, especially amid growing concerns about currency devaluation, counterparty risk, and the integrity of the financial system itself.
- International stocks offer some diversification benefits though not a lot. The same goes for REITs.
- Private assets are more for the experienced investor than the novice. Their illiquidity makes them unsuitable for many portfolios.

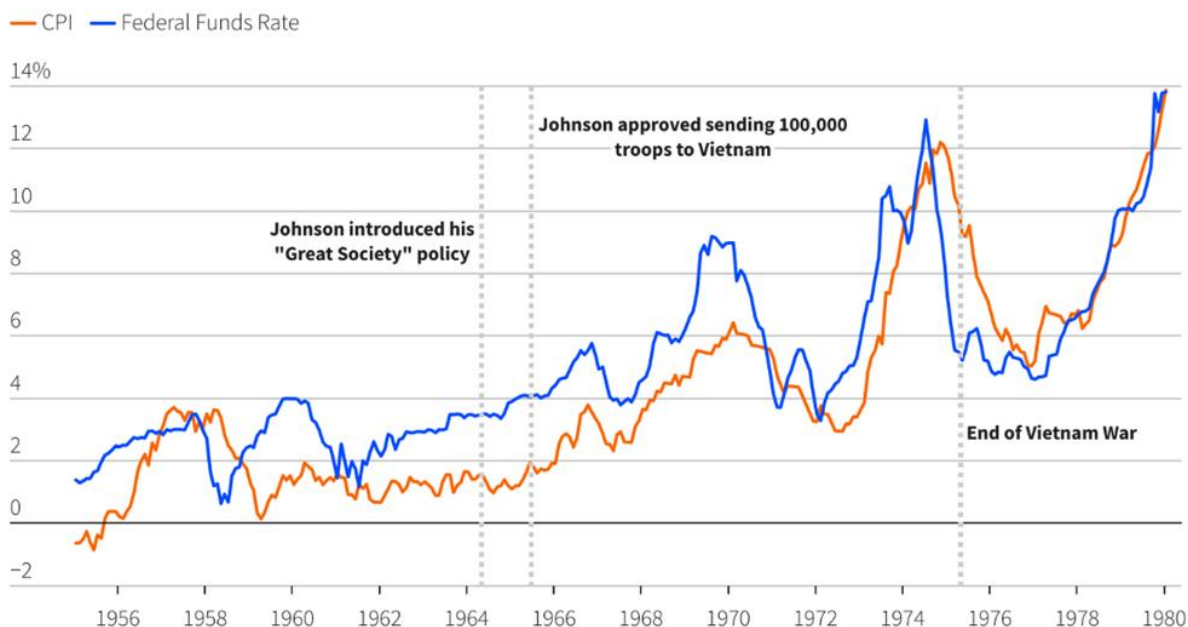
### 3. Inflation may prove structural

As inflation subsides, the world's central bankers are ready to pop open the champagne bottles. They should hold off for a few reasons.

First, there's a long history of central bankers declaring inflation dead before it rears its head again. The 1970s offer the latest example.

During the late 1960s, inflation rose as the 'guns and butter' policy of US President Lyndon Johnson took hold, with increased spending on the Vietnam War and social programs at home. The Fed raised rates to almost 10%, which led to a recession and a nasty pullback in the share market. Inflation fell to 2.7% in 1971.

## Inflation and interest soared and slumped in the 1970s



Note: Average monthly % change

Source: St. Louis Fed, LSEG Datastream | A. F. Alias | Breakingviews | Oct. 17, 2024

Stocks mounted a stirring comeback, only to then be obliterated as inflation spiked again to 10% and rates were hiked to 13%. This resulted in a serious recession.

There were several factors behind the resurgence in inflation. In 1971, the dollar lost its monetary anchor after President Richard Nixon ended the convertibility of the U.S. dollar into gold. At the same time, Nixon put pressure on Fed Chair Arthur Burns to pump up the U.S. economy during his successful 1972 re-election campaign. A year later, OPEC imposed an embargo on oil-importing countries that had supported Israel during the Yom Kippur War. The price of oil trebled. Finally, the Fed initially accommodated the energy crisis by cutting interest rates, which most economists at the time opposed.

This isn't the 1970s though it should make you wary of those proclaiming an end to inflation.

That's especially the case when the world's Governments are loaded with debt and the most politically palatable way of reducing that debt is through inflation. Trump and Musk's failed 'DOGE' experiments shows how hard it is for Governments to cut debt. Inflation is the easier route as it means borrowers like Governments can repay lenders with money that is worth less in terms of purchasing power, effectively lowering the real burden of the debt.

If right, there's an argument for dedicated inflation-protected investments like commodities and inflation-protected bonds to become a permanent component of portfolios rather than a tactical allocation.

### 4. Stock markets outside the US offer upside on multiple fronts

After the recent comeback for US stocks, the S&P 500 is trading on more than a price-to-earnings ratio (PER) of more than 28x, 43% higher than the 17x average of the past 75 years.

Australia isn't cheap either, on a trailing PER of 20x, with low single digit EPS growth expected over the next 12 months.

Other markets offer better value. Europe is on PER of 14x, and Governments there are significantly boosting infrastructure and defence spending, which should flow through to better economic growth, and higher corporate earnings. Investor Joachim Klement calculates that European spending could raise the EU's annual trend growth rate over the next 10 years from 1.6%, the current OECD estimate, to levels like the 2.1% projected for the U.S.

Meanwhile, Japan's market is trading at 13x PER, with continued benefits from a government-initiated corporate restructuring program.

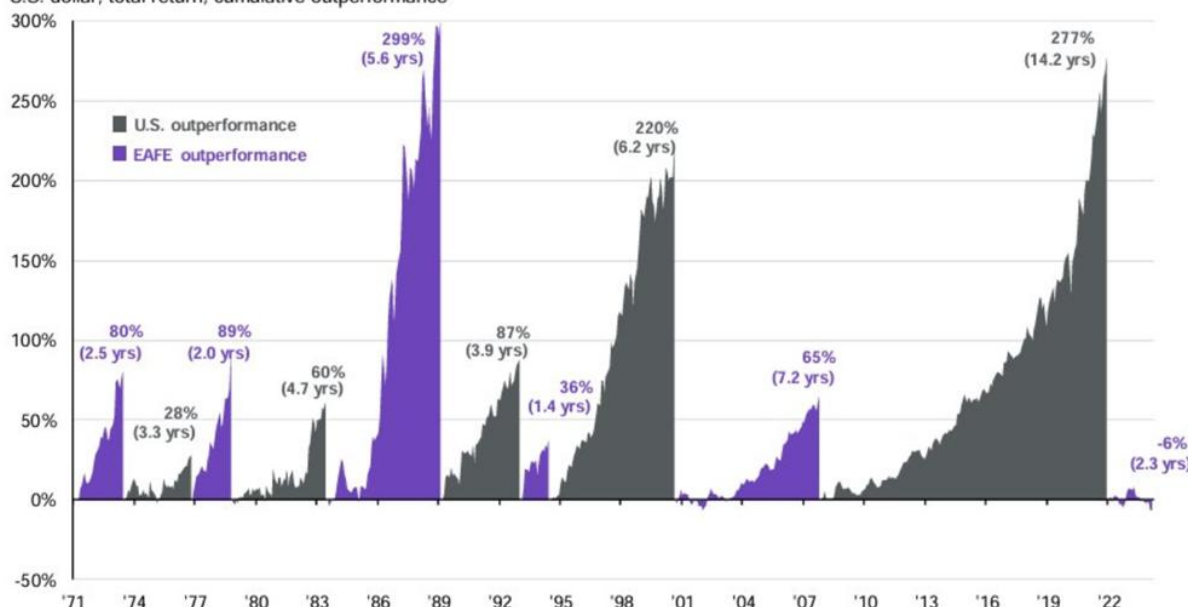
Emerging markets are even cheaper at 12x PER, while China is at 11x. Yes, there are plenty of risks with these markets, though they've previously had sustained periods of significant outperformance.

## Cycles of U.S. equity outperformance

GTM U.S. 44

### MSCI EAFE and MSCI USA relative performance

U.S. dollar, total return, cumulative outperformance



Source: FactSet, MSCI, J.P. Morgan Asset Management.

Regime change determined when cumulative outperformance peaks and is not reached again in the subsequent 12-month period. \*Peak MSCI EAFE outperformance vs. MSCI USA occurred in April 2023. If this is sustained for 12 months, the regime will switch in April 2024. Guide to the Markets – U.S. Data are as of March 31, 2024.

**J.P.Morgan**  
ASSET MANAGEMENT

And with Trump intent on depreciating the US dollar, there is currency appreciation potential for non-US markets too.

\*\*\*\*

My article this week explores a new report which shows Sydney is likely to become the world's most expensive city for housing over the next year. Our other major cities aren't far behind, and the report is scathing of planning policies which have contributed to [skyrocketing house prices](#) both here and around the globe.

**James Gruber**

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## Also in this week's edition...

Last week, prominent property commentator **Louis Christopher** received an unusual email from his bank, CBA, demanding to know intimate details about his financial life and threatening to freeze his accounts if he didn't comply. Louis says the episode highlights a system which [prioritises compliance over ethics](#) and it signals a troubling future for community privacy.

It's nearing the end of the financial year, so those with SMSFs and other super funds should check the strategies available to them. **Liam Shorte** gives us a comprehensive 27-point checklist of the [most important issues to address](#).

Despite a brief correction last month, Aussie bank share prices continue to defy widespread stockbroker doom and gloom. **Hugh Dive** casts his eye over recent bank results, and says there are good reasons why the Big Four may remain [relative safe havens in a turbulent market](#).

**Ophir** Senior Portfolio Manager **Andrew Mitchell** sits down for [an interview with Firstlinks](#) and outlines how he's managed the sharp turns in markets this year, his three key criteria for picking stocks, and why he thinks the Life360's growth story has a long way to run.

Our super funds have poured tens of billions into private assets in recent years on the premise that the asset class offers non-correlated returns with lower volatility. Fund manager and author **Dan Rasmussen** is highly sceptical of these claims. He suggests private equity, for example, primarily represents a [big, risky bet on microcap companies](#).

A new study challenges the [myth that Government spending is wasteful](#) - public investment, especially outside the US, can yield major long-term economic gains, often outperforming private investment in driving GDP growth.

**Joachim Klement** has more.

Lastly, **TD Epoch** - a **GSFM** affiliate - has a whitepaper on the [new global order and its implications](#) for investors.

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## Australian house prices close in on world record

James Gruber

The new Demographia International Housing Affordability report doesn't pull punches when it comes to housing affordability in Australia and globally.

Launched 21 years ago, the report is considered a standard bearer when it comes to the cost of housing in developed markets. When *Demographia* released its first report, almost every major housing market (it covers 95 markets across eight countries) was deemed affordable. Now, not one of them falls into this category.

Australia is one of the least affordable for housing. The report says that we have one market, Perth, which falls into the 'severely unaffordable' category with a median house price to median household income ratio (median multiple) between 5.1x and 8.9x. And we have four other major markets - Sydney, Adelaide, Brisbane, and Melbourne - that are 'impossibly unaffordable', with median multiples of 9x or more.



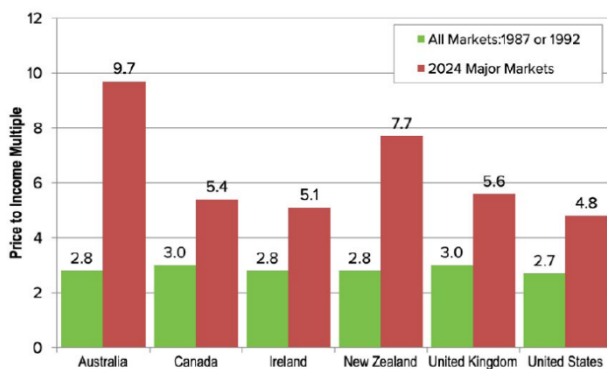
Housing Affordability Ratings by Nation: Totals by Market							
Nation	Affordable (3.0 &Under)	Moderately Unaffordable (3.1-4.0)	Seriously Unaffordable (4.1-5.0)	Severely Unaffordable (5.1 - 8.9)	Impossibly Unaffordable (9.0 &Over)	Total	Median Market
Australia	0	0	0	1	4	5	9.7
Canada	0	1	2	2	1	6	5.4
China: Hong Kong	0	0	0	0	1	1	14.4
Ireland	0	0	0	1	0	1	5.1
New Zealand	0	0	0	1	0	1	7.7
Singapore	0	1	0	0	0	1	4.2
United Kingdom	0	2	7	13	1	23	5.6
United States	0	11	21	20	5	57	4.8
TOTAL	0	15	28	40	12	95	5.1

Australia is the second most expensive nation for housing, only behind Hong Kong. Note that our housing is twice as expensive as that in the US, and it's well above the UK's multiple of 5.6x.

In 1987, the median multiple for housing in Australia was 2.8x. Since then, that multiple has more than trebled.

### International House Price-to-Income Ratios

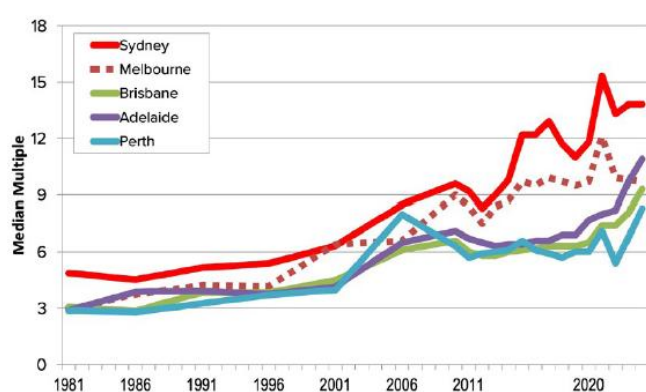
1987/1992 TO 2024



Derived from Reserve Bank of Australia and Demographia

### Middle-Income Housing Affordability

AUSTRALIA: CAPITAL CITY HOUSING MARKETS: 1981-2024



All five of our major housing markets have become considerably more expensive over time.

### We have become a world leader in expensive housing

We have five cities ranked in the top 14 most expensive housing markets in the world.

Sydney is in second place with a median multiple of 13.8x. It's likely to take the mantle of the world's most expensive market by next year. That's because Hong Kong's affordability is rapidly improving thanks to a depressed housing market there. In 2021, the median multiple on Hong Kong housing peaked at an astonishing 23.2x. That's declined to 14.4x today and is expected to fall further over the next 12 months.

Amazingly, Adelaide is ranked as the sixth most expensive housing market in the world. To put this into context, Adelaide housing is more expensive than several of the major global cities, including London, New York, and Chicago.

### World's most expensive housing markets

Ranking	Market	Median multiple
1	Hong Kong	14.4
2	Sydney	13.8
3	San Jose, CA	12.1
4	Vancouver	11.8
5	Los Angeles	11.2
6	Adelaide	10.9
7	Honolulu	10.8
8	San Francisco	10.0
9	Melbourne	9.7
10	San Diego	9.5
11	Brisbane	9.3
12	Greater London	9.1
13	Toronto	8.4
14	Perth	8.3
15	Miami	8.1

Note: median multiple = median house price/median household income  
 Source: Demographia

Meanwhile, Melbourne continues to slip down the rankings as house prices stagnate and affordability improves. Its median multiple peaked at 12.1x in 2021, when it was deemed the world fifth least affordable market. Now at a multiple of 9.7x, it comes in ninth spot.

Brisbane's housing is becoming more expensive, as is Perth's. That means both are moving up Demographia's list of the least affordable markets.

### **Where can you find cheaper housing?**

The US, UK, and Canada have markets with much cheaper housing. Pittsburgh in the US ranks as the most affordable, with a median multiple of 3.2x. It's followed closely by Cleveland, St Louis, and Rochester in New York. The fifth most affordable market is Edmonton in Canada, which is tied with Middlesbrough and Durham in the UK.

### **Why are there no 'affordable' cities to live in?**

Why do none of the 95 markets fall into the 'affordable' category with a median multiple of 3x or less? And what's happened over the past 40 years that's led to exponential rises in house prices around the world?

*Demographia* puts the blame squarely on planning policies. It lambasts the so-called urban containment strategies of the developed world. It says planners have built boundaries around cities beyond which housing isn't being built. Instead, the focus has been on densifying housing within city boundaries. *Demographia* thinks increasing density limits land supply and this naturally increases both land and house prices.

It says all the severely unaffordable markets follow the same urban containment model. The model was developed from the UK's Town and Country Planning Act in 1947 and has since spread around the globe.

The report suggests planners should concentrate instead on building new detached homes on the fringes of cities. Only by increased land supply can land prices fall, and house prices with them.

As an interesting aside, the report notes that middle-income households are increasingly leaving expensive markets for more affordable places – a trend especially visible in the US and UK. It says these moves reflect long-term structural problems, and without major reform, this migration seems likely to continue.

### **Should Australia follow New Zealand's lead?**

The report lauds the housing policies of two countries: Singapore and New Zealand.

With New Zealand, its major city of Auckland has had median multiples drop from 11.2x in 2021 to 7.7x now. The report says the fall is a combination of improved incomes coming out of the Covid period and Government reforms that have started to impact land prices.

The Coalition Government elected in 2023 in New Zealand is opening up a large amount of land for greenfield development, consistent with promises made during the election. The Housing Minister, Chris Bishop, has noted that "our housing crisis is holding New Zealand back socially and economically," and "we need more houses, and we need more greenfield development."

The New Zealand Government's 'Going for Housing Growth' program is seeking to ensure abundant development land within and around urban areas.

*Demographia* says these moves should prevent the artificial scarcity that has driven house prices so high under previous planning strategies.

*James Gruber is Editor of Firstlinks.*



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## CBA, AUSTRAC and our Orwellian privacy laws

Louis Christopher

Last Tuesday, I was blindsided by an email from the Commonwealth Bank of Australia (CBA) demanding intimate details about my financial life. They wanted to know how I built my wealth, why I made certain transactions, and whether I hold cash at home—all within seven days, or they'd freeze my accounts.

I first thought it was spam. But no, it was real.

Citing AUSTRAC, Australia's anti-money laundering regulator, CBA's demands felt like an invasion, a dystopian overreach that left me reeling. This wasn't just bureaucracy; it was personal. Here's what's happening, why it's happening, and what it means for our privacy.

### Know your customer

AUSTRAC's [Know Your Customer \(KYC\) rules](#), under the Anti-Money Laundering and Counter-Terrorism Financing Act 2006, require banks to identify and verify customers to prevent financial crimes like money laundering and terrorism financing. Banks must collect and verify identity details, monitor transactions, and report suspicious activities. For higher-risk customers—like those in cash-intensive businesses or certain industries—enhanced due diligence applies. CBA's email aligns with these obligations, as banks must ensure customer information is current and accurate, or risk penalties like the \$700 million fine CBA faced in 2018 for Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) breaches.

But the way CBA enforced these rules felt like a sledgehammer. Demanding I justify how I made my wealth. Demanding to know if I keep cash at home and why; with threats to lock my accounts, isn't just compliance—it's intimidation and a potential security risk for me and my family. It should be noted that AUSTRAC released a statement to the media surrounding my experience that they do not require the banks to freeze customer accounts in order to meet their KYC rules.

Nevertheless, banks are under pressure to avoid AUSTRAC's wrath, so they cast wide nets, collecting more data than necessary to cover themselves. This overreach raises ethical dilemmas: where's the balance between security and personal autonomy? My financial history is mine, not a bank's to interrogate at will. The Privacy Act 1988 requires businesses to limit data collection to what's necessary, yet CBA's demands felt speculative, as if I'm guilty until proven innocent.

It should be noted the call ended with the bank demanding they can share this very personal information about me to other third parties including other commercial credit providers.

### What's next?

This experience signals a troubling future for community privacy. If banks can demand such intrusive details under AUSTRAC's banner, what's next? The global shift to [ISO20022](#) for international fund transfers, implemented in 2022, means even more personal data is collected and shared with regulators. Cash, a last bastion of private transactions, is under threat – the query about my holding of cash at home felt like a nudge toward a cashless society where every move is tracked. This erodes trust. If banks treat customers like suspects, people may turn to unregulated channels, ironically undermining AUSTRAC's goals by reducing transparency.

What's next for personal information requirements? Expect tighter regulations. AUSTRAC's push for robust AML/CTF frameworks means banks will likely demand more frequent updates to customer data, especially as fintech and

digital currencies grow. The [Consumer Data Right](#), already active in banking, could expand, giving consumers some control over data sharing but also normalizing constant data flows. Yet, without stronger privacy protections, this risks a surveillance state where personal freedom is sacrificed for security.

This isn't just about me—it's about all of us. CBA's demands, driven by AUSTRAC, highlight a system prioritising compliance over ethics. We need clear boundaries on data collection, robust oversight to prevent overreach, and a public conversation about privacy in a digital age. I'm not a criminal, and neither are most Australians. We deserve better than to be treated like suspects in our own lives.

*Louis Christopher is Managing Director of [SQM Research](#).*

## The ultimate superannuation EOFY checklist 2025

Liam Shorte

Here we go again. We have only a short time left to the end of the financial year to put our SMSF or other super funds in order and ensure we are making the most of the strategies available to us. Here is a checklist of the most important issues that you should address with your advisers before the year-end.

### Warning before we begin

You need to check your personal super balances, contribution limits, caps and tax position before implementing any of these strategies as your own particular circumstances may warrant alternative options.

#### 1. It's all about timing

If you are making a contribution, the funds must hit the super fund's bank account by the close of business on 30 June. Some clearing houses hold on to money before presenting them to the super fund. Some Retail and Industry funds are asking for funds to be contributed by the 18th-20th June!

In addition, pension payments must leave the account by the close of business unless paid by cheque in which case the cheques must be presented within a few days of the EOFY. There must have been sufficient funds in the bank account to support the payment of the cheques on 30 June, but a cheque should be your very last-minute option!

Get your payments in by Monday 23 June or earlier to be sure (yes I'm Irish), as the 30th is a Monday this year. This is even more important if using a clearing house for contributions.

#### 2. Review your Concessional Contributions (CC) options

The Government changed the CC from 1 July 2024 to \$30,000 (from \$27,500) and remember that you have the ability to make CCs up to age 67 even if not working and to 75 if you meet the [Work Test](#). This is important for those who have retired but may have sold a property or shares and triggered a large capital gain during the year. Do not exceed your limit unless you have Unused Carried Forward Concessional limits and Total Super Balance under \$500,000 as of last 1 July 2024. Guidance on how to check your Unused Carried Forward Concessional limits via MyGov records available [here](#).

Check employer contributions on normal pay and bonuses, salary sacrifice and premiums for insurance in super as they are all included in the limit.

**From 1 July 2025**, the Super Guarantee rises to 12%. Re-evaluate your contribution plans for 2025-26. You'll need to use the new rate to calculate how much of your indexed CC cap of \$30,000 will be available to salary sacrifice or make personal deductible contributions.

### 3. Consider using the 'Unused Carry Forward Concessional Contribution' limits

Broadly, the carry forward rule allows individuals to make additional CCs in a financial year by utilising [unused CC cap amounts](#) from up to five previous financial years. Eligibility requires a total superannuation balance just before the start of that financial year of less than \$500,000 (across all your super accounts).

This measure applies from 2019-20 so effectively, this means an individual can make up to \$162,500 of CCs in a single financial year just by utilising unapplied unused CC caps since 1 July 2019 and this year's limit. **This is the last year to use any 2019-20 unused CCs as they fall outside the 5-year window from 30 June 2025.**

Beware that once your income (including salary, investment income, employer SGC, and personal concessional contributions) goes over \$250,000 you will be subject to [Div 293 Tax](#).

### 4. Review plans for Non-Concessional Contributions (NCC) options

From 1 July 2024 the NCC cap rose to \$120,000 per year or \$360,000 under the 3-year Bring Forward Rule.

NCCs are an opportunity to move investments into super and out of personal, company or trust names. If you have considerable additional funds to contribute then maybe contribute up to \$120,000 before June 30 and then you may be able to contribute up to \$360,000 after 1 July to maximise contributions.

Even up spouse balances and maximise super in pension phase [up to age 75](#). Couples where one spouse has exhausted their Transfer Balance Cap (TBC) and has excess amounts in accumulation are able to withdraw and re-contribute to the other spouse who has TBC space available to commence a retirement phase income stream. This can increase the tax efficiency of the couple's retirement assets as more of their savings are in the tax-free pension phase environment and may help minimise [Div 296 Tax](#).

### 5. Recontribution strategies

Make your tax components more tax free by using recontribution strategies. SMSF members can cash out their existing super and re-contribute (subject to their contribution caps) them back into the fund to help reduce tax payable from any super death benefits left to non-tax dependants. From 1 July 2022 you can do this until age 75 (contribution to be made within 28 days after the end of the month you turn 75).

Consider doing the drawdown before 30th June so that your TBC and Total Super Balance (TSB) on 1st July 2025 gets some additional space. Note that if you had an existing pension(s) at 30th June 2024 your current TSB limit will be anywhere between \$1.6 million and \$2 million after 1 July (frustrating for advisers!).

### 6. Downsizer contributions

If you sell your home and you are over 55, consider eligibility for [downsizer contributions](#). It allows individuals to make a one-off, post-tax contribution to their superannuation of up to \$300,000 per person from the proceeds of selling their home. But you must make your downsizer contribution **within 90 days** of receiving the proceeds of sale (usually the date of settlement). These contributions do not count towards non-concessional contribution caps.

The \$300,000 downsizer limit (or \$600,000 for a couple) and the \$360,000 bring forward NCC cap allow a single person to contribute up to \$660,000 (or \$1.32 million for a couple) in one year subject to their contributions caps.

Please be careful as this is a **once only strategy** and if you would benefit more in later years using the strategy, then maximise NCCs first.

## 7. Calculate co-contributions

Check your eligibility for the co-contribution, it's a good way to boost your super. The amounts differ based on your income and personal super contributions, so use the [super co-contribution calculator](#).

## 8. Examine spouse contributions

If your spouse has assessable income plus reportable fringe benefits totalling less than \$37,000 for the full \$540 tax offset or up to \$40,000 for a partial offset, then consider making a spouse contribution. Check out the ATO guidance [here](#).

You can implement this strategy up to age 75 as a Spouse Contribution is treated as a NCC by your spouse (and therefore counted towards your spouse's NCC cap).

Consider splitting contributions with your spouse, especially if:

- your family has one main income earner with a substantially higher balance or
- if there is an age difference where you can get funds into pension phase earlier or
- if you can improve your eligibility for concession cards or age pension by retaining funds in superannuation in the younger spouse's name.

This is a simple no-cost strategy I recommend for everyone [here](#).

## 9. Give notice of intent to claim a deduction for contributions

If you are planning to claim a tax deduction for personal concessional contributions, you must have a valid ['notice of intent to claim or vary a deduction' \(NAT 71121\)](#).

A notice must be made before you commence the pension. Many people like to start their pension in June and avoid having to take a minimum pension in that financial year but make sure you have claimed your tax deduction first. The same notice requirement applies if you plan to take a lump sum withdrawal from your fund.

## 10. Act early on off-market share transfers

If you want to move any personal shareholdings into super (as a contribution) you should act early. The contract is only valid once the broker receives a fully valid transfer form so timing in June is critical. There are likely to be brokerage costs involved.

## 11. Review options on pension payments

Ensure you take the minimum pension based on your age-based rate. If a pension member has already taken pension payments of equal to or greater than the minimum amount, they are not required to take any further pension payments before 30th June 2025. For transition to retirement pensions, ensure you have not taken more than 10% of your opening account balance this financial year.

If a pension member has already taken a minimum pension for the year, they cannot change the payment, but they can get organised for

Age at 1 July	2023-24 Back to Standard Minimum % withdrawal
Under 65	4%
65-74	5%
75-79	6%
80-84	7%
85-89	9%
90-94	11%
95 or older	14%

2025-26. So, no, you can't sneak a payment back into the SMSF bank account unless you treat it as a new contribution!

If you need more pension payments for living expenses but have already taken the minimum then it may be a good strategy for amounts above the minimum to be withdrawn as either:

- a. a partial lump commutation sum, creating a debit against the pension members transfer balance account (TBA). Please discuss this with your accountant and adviser **first** as all funds have to report these quarterly to the ATO.
- b. for those with both pension and accumulation accounts, a lump sum from the accumulation account to preserve as much in tax-exempt pension phase as possible.

## **12. Check your documents on reversionary pensions**

A reversionary pension to your spouse will provide them with up to 12 months to get their financial affairs organised before making a final decision on how to manage your death benefit.

You should review your pension documentation and check if you have nominated a reversionary pension in the context of your family situation. This is especially important with blended families and children from previous marriages that may contest your current spouse's rights to your assets. Also consider reversionary pensions for dependent disabled children.

The reversionary pension has become more important with the application of the \$1.6 million - \$2 million TBC limit to pension phase.

**Tip:** If you have opted for a nomination instead then check the existing Binding Death Benefit Nominations (many expire after 3 years) and look to upgrade to a Non-Lapsing Binding Death Benefit Nomination. Check your Deed allows for this first.

## **13. Review Capital Gains Tax on each investment**

Review any capital gains made during the year and over the term you have held the asset and consider disposing of investments with unrealised losses to offset the gains made. If in pension phase, then consider triggering some capital gains regularly to avoid building up an unrealised gain that may be at risk to legislative changes.

## **14. Collate records of all asset movements and decisions**

Ensure all the fund's activities have been appropriately documented with minutes, and that all copies of all statements, valuations and schedules are on file for your accountant, administrator, and auditor.

The ATO has beefed up its requirements for what needs to be detailed in the SMSF Investment Strategy so review your investment strategy and ensure all investments have been made in accordance with it and the SMSF Trust Deed, including insurances for members. See my article on this subject [here](#).

## **15. Arrange market valuations**

Regulations require assets to be valued at market value each year, including property and collectibles. For more information refer to ATO's publication [Valuation guidelines for SMSFs](#). On collectibles, play by the rules that came into place on 1 July 2016 or remove collectibles from your SMSF.

**Tip:** The ATO is targeting audit compliance this year on [Property Valuations in SMSFs](#) as we approach the implementation of the [Division 296 Tax from 1 July 2025](#).

**Div 296 Tax:** Valuations of all assets on 1 July 2025 will be crucial. For those with balances over or close to \$3 million and used to using low-end property valuations for your asset value, you may need to rethink this strategy as you do not want a large increase in value in future years or it will be caught under the “unrealised gains” sting in this tax.

**Tip:** It would be better to ensure your properties truly match the market value on 1 July 2025 than to have a large rise in value recorded in future years that will trigger higher Div 296 Tax.

## **16. Check the ownership of all investments**

Make sure the assets of the fund are held in the name of the trustees (including a corporate trustee) on behalf of the fund. Carefully check any online accounts and ensure all SMSF assets are separate from your other assets.

We recommend a corporate trustee to all clients. This might be a good time to change, as explained in this article on [Why SMSFs should have a corporate trustee](#). If you have previously moved to a Corporate Trustee then double check all accounts/investments were changed to the name of this trustee.

## **17. Review estate planning and loss of mental capacity strategies**

Review any Binding Death Benefit Nominations (BDBNs) to ensure they are valid and check the wording matches that required by the Trust Deed. Ensure it still accords with your wishes.

Also ensure you have appropriate Enduring Powers of Attorney (EPOAs) in place to allow someone to step into your place as trustee in the event of illness, mental incapacity or death.

Check your Trust Deed and the details of the rules. For example, did you know you cannot leave money to stepchildren via a BDBN if their birthparent has pre-deceased you?

## **18. Review any SMSF loan arrangements**

Have you provided special terms (low or no interest rates, capitalisation of interest etc) on a related party loan? Review your loan agreement and see if you need to amend your loan.

Have you made all the payments on your internal or third-party loans, have you looked at options on prepaying interest or fixing the rates while low?

Have you made sure all payments in regards to Limited Recourse Borrowing Arrangements (LRBAs) for the year were made through the SMSF trustee? If you bought a property using borrowing, has the Holding Trust been stamped by your state's Office of State Revenue?

The current variable interest rate for related party LRBAs is **9.35%, but is due to be updated for FY2026 in late-May**.

## **19. Ensure SuperStream obligations are met**

For super funds that receive employer contributions, the ATO has introduced SuperStream, whereby super contributions are made electronically. All funds should be able to receive contributions electronically and you should obtain an Electronic Service Address (ESA) to receive contribution information. If you change jobs your new employers may ask SMSF members for their ESA, ABN and bank account details.

## **20. Ensure you are meeting your Quarterly TBAR (transfer balance account report) deadlines**

All SMSFs are required to report events that affect a member's transfer balance account within 28 days after the end of the quarter in which the event occurs, even if the member's total super balance is less than \$1 million.



Example: Any reportable events that occur between 1 April and 30 June 2025 must be reported by 28 July 2025. This means you cannot report at the same time as your SMSF annual return (SAR) for the 2024-25 income year. More info [here](#).

## **21. ASIC fee increases**

The Government has adopted a 'user pays' model which has seen annual increases to its fees. ASIC's current [annual review fee](#) of a special purpose SMSF trustee company is \$65 (up from \$63). For \$452 you can pre-pay the company fees for 10 years and lock in current prices with a decent discount. There is a remittance form [linked here](#).

## **22. Legacy retirement product conversions (seek expert advice)**

On 7 December 2024, regulations came into effect to allow the commutation of legacy pensions for a limited 5-year period. There is considerable additional detail in this feature so consult an adviser if you are affected, especially to ensure you do not lose other entitlements such as the age pension.

The regulations allow a five-year timeframe for lifetime or life expectancy pensions and MLIS to be commuted.

You have the following options:

- withdraw the funds from superannuation (all these clients have previously met a condition of release)
- rollover the amount to accumulation phase, or
- use the funds to commence an account-based pension (if transfer balance cap space is available).

Under this measure, if a lifetime or life expectancy pension is commuted, any reserve supporting that income stream is also added to the commutation value. However, no amount from the reserve is counted towards your NCC.

## **23. Home Equity Access Scheme (HEAS)**

[The Home Equity Access Scheme](#) formerly called The Pension Loan Scheme, lets older Australians who are Age Pension age or older get a voluntary non-taxable loan from the Government.

- No negative equity guarantee - Borrowers under the HEAS, or their estate, will not owe more than the market value of the property secured against the loan, minus any other mortgages or legitimate encumbrances.
- Immediate access to lump sums under the HEAS - Eligible people will be able to access up to two lump sum advances in any 12-month period, up to a total value of 50% of the maximum annual rate of Age Pension (currently \$14,937 for singles and \$22,518 for couples).

## **24. Careful if replacing Income Protection or TPD Insurance (Total Permanent Disability)**

Have you reviewed your insurances inside and outside of super? Don't forget to check your current TPD policies owned by the fund with an own occupation definition as the rules changed a few years ago so be careful about replacing an existing policy as you may not be able to obtain this same cover inside super again.

There were major changes to Income Protection insurance in 2021 so be very careful about switching insurer unless costs have blown out as new cover is often vastly inferior to current covers. Read more [here](#) before switching cover.

## **25. Large one-off personal income or gain – Bring forward Concessional Contributions**

For those who may have a large taxable income this year (large bonus or property sale) and are expecting a lower taxable income next year you should consider a contribution allocation strategy to maximise deductions for the current financial year by bringing some or all of your FY2026 limit forward to this year. This strategy is also known as

a "Contributions Reserving" strategy, but the ATO are not fans of Reserves so best to avoid that wording! Just call it an Allocated Contributions Holding Account. See my article on this strategy [here](#).

## 26. Providing proof of cryptocurrency holdings as of 30 June

You should be using an exchange that is set up for SMSF accounts. They should provide a Tax Summary but it may cost extra. Some exchanges are now partnering with specialised services that are experts in Australian tax reporting that meet Australian Audit requirements.

The auditor will also want to verify holdings by checking:

- An exchange account is set up in the name of the fund
- Wallet purchased using funds from the SMSFs cash account

**Cold Wallet** audit management extra step: For annual audit purposes, take a screenshot of the assets held in your Ledger wallet (e.g. via the Ledger 'Live' App or similar) on 30 June and also on the day you submit your paperwork and email this to the tax agent at tax time.

## 27. Non-arms-length expenses / income (NALE/NALI)

NALE/NALI applies in the 2025 year (in the sense the ATO are going to enforce it) – please ensure that if members perform services for their SMSF which is their 'day job' (ie. Accounting work for Accountants, Building and repair work for tradies, etc) that these are charged at the appropriate commercial rate that they charge their clients. A good article explaining this in more detail [here](#) from ASF Audits.

***Don't leave it until after 30 June. Review your Self Managed Super Fund now and seek advice if in doubt about any matter.***

*Liam Shorte is a specialist SMSF adviser and Director of [SONAS Wealth](#). He is also a Director of the SMSF Association and he writes under the social media identity of 'The SMSF Coach'. This article contains general information only and does not address the circumstances of any individual. It is based on an understanding of relevant legislation and rules at the time of writing, which may change.*







## Why 'boring' Big Four banks remain attractive

### Hugh Dive

The May 2025 bank reporting season was highly anticipated by investors, more so than usual. Many professional fund managers sold down their bank exposures in early 2024 due to concerns about recession, rising bad debts, and valuation concerns in the case of Commonwealth Bank. Selling the banks in 2024 proved to be a very painful trade for many fund managers, with the banks outperforming strongly last year. Indeed, the banks seemed poised for a big fall, with global economic uncertainty following President Donald Trump's 'Liberation Day', which sent the ASX200 down 14% from its highs in February. However, the prophesied (*and hoped for by those short the banks*) doom and gloom for Australia's banks did not eventuate this May, with all banks growing profits and again revealing minuscule bad debts.

In this piece, we look at the major themes that played out over the May 2025 bank reporting season in the over 700 pages of financial results released, including the regional banks, awarding gold stars based on their performance over the last six months. Even for investors that don't own the banks, looking closely at their results provides a window into the financial health of Australia.

### Reporting season scorecard May 2025

Company	Share Price	Market Cap \$B	Cash earnings per share growth (pcp)	Increase in Dividends	Net interest margin	Credit Impairment charge as % of loans	Capital Ratio	Return on Equity	Forward PE Ratio	Forward dividend yield	Grossed Up Yield	12 month total return
Westpac	\$31.26	\$ 107	4.8%	1.3%	1.88%	0.06%	12.2%	9.8%	15.1X	5.3%	7.6%	24.4%
ANZ	\$28.53	\$ 85	0.9%	0.0%	1.56%	0.04%	12.0%	10.2%	12.2X	5.9%	7.4%	6.4%
NAB	\$36.10	\$ 111	2.6%	1.2%	1.70%	0.09%	12.1%	11.7%	15.7X	4.7%	6.8%	11.5%
CBA* Q32025 update	\$167.50	\$ 280	6.0%	4.7%	2.08% 	0.09%	11.9%	13.7% 	27.5X	3.0%	4.3%	46.7%
Macquarie Half Year	\$211.85	\$ 81	6.8% 	1.6%	1.69%	0.03%	12.8% 	11.2%	19.0X	3.4%	3.9%	9.8%
BOQ	\$7.61	\$ 5	6.4%	5.8% 	1.57%	0.01% 	10.9%	6.2%	13.6X	5.3%	7.5%	34.1%
Bendigo Bank	\$11.67	\$ 7	-1.1%	0.0%	1.88%	0.15%	11.2%	7.6%	13.1X	5.7%	8.1%	24.9%

Source: Company reports, IRESS, Atlas Funds Management

## Margin pressure

Net interest margins are always a major topic during the banks' reporting season, with most investors going straight to the slide on margin movements in the immense Investor Discussion Packs. Banks earn a net interest margin (Interest Received - Interest Paid) divided by Average Invested Assets] by lending out funds at a higher rate than borrowing these funds from depositors or wholesale money markets.

Whilst net interest margins came under pressure for the banks this half, most were able to offset lower margins with higher loan growth. For example, Westpac's net interest margin decreased by 0.09% over the first half of 2025 to 1.88%. Although it is disappointing to have a lower margin, Westpac was able to grow its loan portfolio by \$18 billion over the half, taking its loan book to \$825 billion. Following the combination of a lower interest margin and higher loan portfolio, Westpac's interest income was actually flat in the last half, despite the lower margin.

Typically, Westpac and Commonwealth Bank enjoy a higher net interest margin than ANZ and NAB due to their higher weighting to mortgages, which enjoy a higher net interest margin than corporations that canvass banks in Japan or Europe for borrowing needs. In the first half of 2025, ANZ, Macquarie and Westpac saw small decreases in their net interest margins, with NAB able to hold their steady across the half. All the banks mentioned higher competition for loans, though this was tough to detect in their financial results, with all banks doing a good job growing their loan books to offset the margins.



## Bad debts remain extremely low

Bad debts continued to remain low in 2025, with all the banks reporting extremely low loan losses. Bank of Queensland reported the lowest bad debts, 0.01% of gross loans, reflecting disciplined growth in their loan book, with all the big banks with less than 0.1% of gross debts being bad debts.

The level of loan losses is important for investors as high loan losses reduce profits, and erodes a bank's capital base. This reporting season has seen low bad debts translated into better-than-expected profits and, thus, higher dividends.

Atlas sees that the low level of bad debts is a combination of the prudent management of risks in the loan book, low unemployment and more conservative lending than we saw from the banks 2000-07. However, it would be disingenuous to attribute current low bad debts entirely to prudent lending from the banks. APRA's capital requirements announced in 2016 in response to the Basel III reforms to global banking effectively restrict banks from lending to developers that have not pre-sold 100% of their development and have a maximum loan-to-value (LVR) ratio on developments of around 65%. These requirements have seen developers switch to non-bank lenders and private credit funds that are not encumbered by these requirements.

We believe the loans to developers, property syndicates, and troubled industrial companies that are impaired now sit with non-bank lenders and private debt funds rather than the big four banks. What we have seen in 2024 and 2025 is signs of stress in private credit funds, with various funds converting non-performing loans into private equity stakes and getting into residential property development as loans went south. While an APRA-regulated bank would have to declare this as a bad debt, private credit funds have been slow to record these as losses.

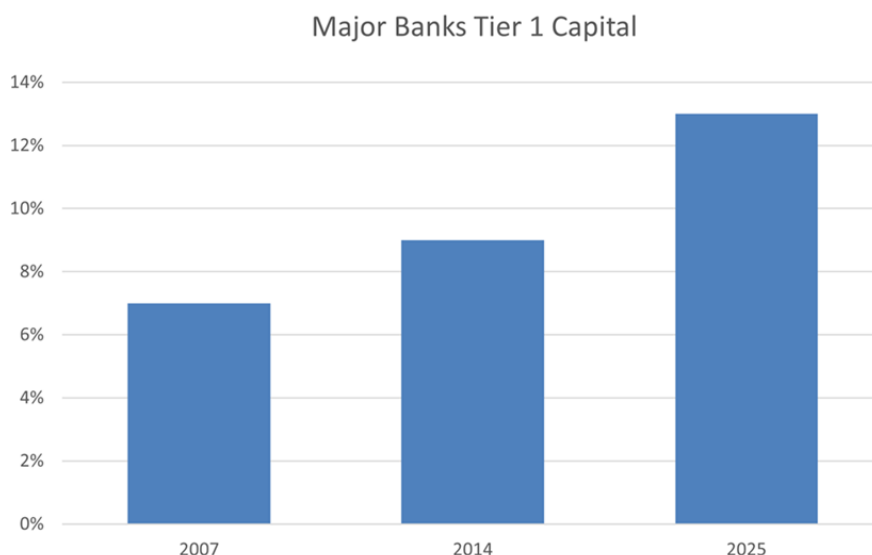


### Not the banks of 2007

Capital ratio is the minimum capital requirement that financial institutions in Australia must maintain to weather the potential loan losses. The bank regulator, the Australian Prudential Regulation Authority (APRA), has mandated that banks hold a minimum of 10.5% of capital against their loans, significantly higher than the 5% requirement pre-GFC.

Requiring banks to hold high levels of capital is not done to protect bank investors but rather to avoid the spectre of taxpayers having to bail out banks. In 2008, US taxpayers were forced to support Citigroup, Goldman Sachs and Bank of America, and British taxpayers dipping into their pockets to stop RBS, Northern Rock and Lloyds Bank going under. The Australian banks were better placed in 2008 and did not require explicit injections of government funds; the optics of bankers in three-thousand-dollar suits asking for taxpayer assistance is not good. Overall, the major Australian banks hold significantly more capital backing their loans in 2025 than they were pre-GFC or even ten years ago. Better capitalised banks are safer investments for both investors and depositors.

While the bank management teams congratulate their prudence in holding such high levels of capital, those with longer memories will recall the histrionic statements in 2015 when APRA forced the banks to raise \$13.5 billion in extra capital. These capital raises were unusual as they were not made in response to a recession but rather to strengthen the banking system's resilience against potential financial crises.



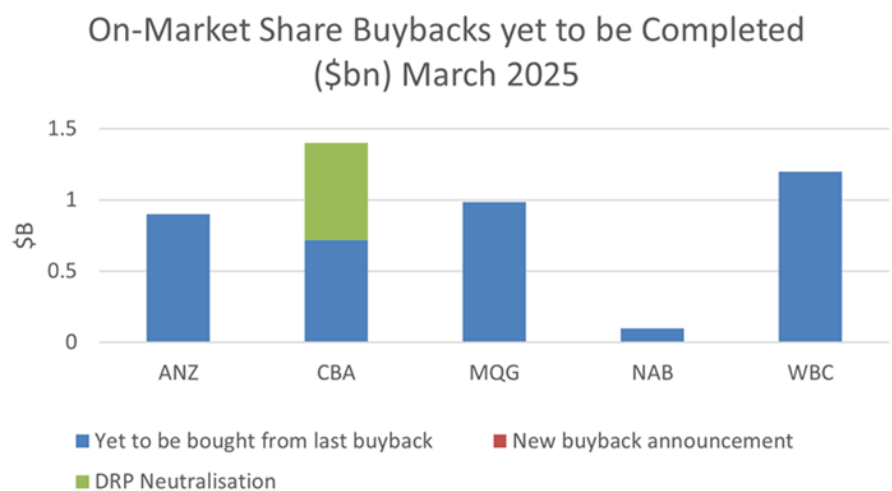
In December 2024, APRA announced that additional tier 1 capital (bank hybrid notes) would be phased out of bank prudential frameworks. This will not be a large problem for the big banks, with all of them finishing the half with over 12% capital ratios. As many of these hybrids had franking credits attached to their coupon payments, the phasing out of hybrids see franking credits build up on bank balance sheets.



## Buybacks

Buying back shares on the market and then cancelling them is positive for both shareholders as it reduces the divisor on future bank profits, and bank management teams are awarded bonuses based on their return on equity (ROE). ROE increases as buying back shares reduces the equity divided into a bank's return. Over the past few years, buy-backs have provided a consistent tailwind to bank share prices, with the banks themselves buying between 5-10% of the average daily volume on the ASX and then cancelling the shares. For example, since March 2022, Westpac has reduced its outstanding shares by 7%, buying back \$7.5 billion in shares. Atlas has been reticent to swim against the tide of share buy-backs.

Whilst no new buy-backs were announced during this bank reporting season, the banks still have large buy-backs to complete from previous years in addition to the neutralisation of the Dividend Reinvestment Plans (DRP) and, in the case of Macquarie Bank, neutralise the impact of shares issued by their Employee Share Plan. This should see \$5.7 billion of bank shares bought back and cancelled in 2025 and will limit the impact of large market falls.



Source: Company Reports & AFM

## Dividends

In the May 2025 bank reporting season, the banks announced smaller increases in dividends than we have seen over the last few years, with the average dividend increase across the big banks being 1%. Of the big 4 banks, Commonwealth Bank had the largest dividend increase of 2.1%, with ANZ at the other end, holding the dividend the same as they did last year. These dividend increases were largely a byproduct of on-market share buy-backs that have been conducted over the last few years. For example, since November 2021, Westpac has reduced its share count by 7% after buying back \$7.5 billion in shares, with other banks in similar stead.

## Regional banks

The regional banks walked away with two stars, being awarded to the Bank of Queensland, one for increasing dividends and one for low bad debts. In the past decade, the regionals have not seen many stars awarded. BOQ's low bad debts are slightly below the other banks, and its dividend increase of 5.8% benefits from timing as it followed a 15% cut in the dividend in May 2024.



In Australia, the big four banks dominate with a combined market share of 74%, following ANZ's successful acquisition of Suncorp Bank. The closest to breaking into the market is Macquarie, with close to 6% of the market share, followed by the two regional lenders of Bank of Queensland and Bendigo Bank, with a 3% market share each.

As we have seen in the bank matrix at the top, the regional banks face a competitive disadvantage when compared to the major banks, typically enjoying lower net interest margins and lower return on equity. This occurs because they have a higher capital cost than the major banks. Here, wholesale funders require higher coupons on their bonds to offset their higher risks and greater geographic concentration. Additionally, the regional banks have limited access to the large pools of corporate transaction account balances that have historically paid minimal interest rates.

### **Our take**

Overall, we are happy with the financial results from the banks owned by the Atlas Australian Equity Portfolio in May. The three main overweight positions, ANZ and Westpac, maintained or increased their dividends, and Macquarie Bank showed a 30% increase in net profits in the second half, which also guided to increased profits in FY26.

All banks showed solid net interest margins, low bad debts, and good cost control. In 2026, the banks will all have cleaner loan books, more consistent earnings and a greater margin of safety than they have had in the past. In a turbulent world with weekly changes in trade policies, Australia's major banks are likely to positively surprise the market, operating in a small oligopolistic fishpond, sheltered from both new competition and global storms. As we saw in April, many foreign investors find our 'boring' banks quite attractive during global instability.

*Hugh Dive is Chief Investment Officer of [Atlas Funds Management](#). This article is for general information only and does not consider the circumstances of any investor.*

## **Ophir on Trump, constant improvement, and Life360**

Andrew Mitchell

*This is an interview between Firstlinks' James Gruber and Andrew Mitchell, Founder and Senior Portfolio Manager at Ophir Asset Management.*

**James Gruber:** How have you managed the portfolios through Trump's recent tariffs and market volatility?

**Andrew Mitchell:** Middle to late February, we were concerned that the market was not pricing in any risk in terms of what Trump was going to do with tariffs and the economic backdrop and we started taking profits in some of our names that had done well for us, and redistributing them into companies that didn't have the same momentum, and were also perhaps less GDP sensitive.

So we'd reduced the beta in the portfolio and then when the volatility came, we were using that to really buy the companies that we liked; that had fallen a lot further than they should.

I'd give us a 7.5 to 8 out of 10 in terms of how we navigated that period. It would have been great if we bought a lot more when the prices were down. But we're quite happy with how we've gone.

**JG:** Small caps have struggled on the whole for a long time, yet you've been able to put up some great numbers - what's Ophir's secret sauce?



**AM:** It's actually a great time for you to ask this question because we were looking at some stats today, and I think it was that 25% of US small caps outperformed the S&P 500 last year. But also a similar percentage of the S&P 500 companies outperformed the S&P 500 index too. And that's because of the performance of the Magnificent Seven.

But we just need to back ourselves to find those 25% of companies. There are far less eyeballs looking at small caps, and far more small caps than large caps so we've just got to find those companies that are doing well and better than everyone expects.

**JG:** What are the criteria that you use to choose stocks for your portfolio?

**AM:** There are three main ones, as well as a couple of subjective measures too. The three main ones are:

- The starting point is earnings and cashflow trajectory need to be greater than the market is expecting. This raises two questions: What is the market expecting, and how is this company going to do better than what the market expects?
- The second thing is optionality. We think the market really struggles to value optionality in a business, and we love getting free optionality, or not paying much for the optionality in a company that can make a fantastic acquisition, that can do a dividend or use cash flow to buy back shares, or maybe it could even get taken over. There are lots of different optionalities, like winning a big contract or its biggest competitor could go broke.
- The final one, which is probably as important as the first one, is valuation. If the earnings and cash flow are different to what the market expects, then that should give you a good idea of the valuation. Does this company look cheap to us and undervalued, especially if it's got a different earnings trajectory?

Then we have these subjective measures where we look at management, which is sort of related to optionality. But we do a thing where we score management, the risks, the external risk to a business and ESG considerations, and then a final one we look at is a meltdown score, where we look at how the company is placed if we're wrong on the economic backdrop and COVID 2.0 lands tomorrow, for instance.

**JG:** You've been active managers, turning over stocks every 2-3 years – what's the strategy behind that?

**AM:** Turnover changes at any point in time. We've had a few companies that doubled and, we're going to be selling those along the way.

As I told you, we're looking for earnings that are growing at a better rate than the market expects and it's undervalued. Well, what happens if the markets work out everything we've worked out, and it's not cheap anymore? We'll sell it. That's your turnover.

We're also always judging businesses in particular parts of the business cycle - where the risk sits. So, more than half our turnover is adjusting stocks based on their earnings risks over the next quarter or two.

Returns need to always be balanced with the volatility to get those returns. We're trying to minimize that volatility and maximize the return.

**JG:** Have you changed or refined your investment process over time?

**AM:** It's certainly been refined, and it's getting refined all the time. We're making mistakes all the time. We want to create an environment where everyone can talk about their mistakes in an open forum, and we can embrace the mistakes to make us all better, and that enables you to refine your process.

So those things I went through like the meltdown score, that hasn't always been there. Putting the subjective score on management, that hasn't always been there. These are things over time that we've thought we need to factor in. So

we're always just trying to get better. But the core process of outworking our competitors to understand the key drivers to cash flow over the short, medium and longer term - that's unwavering.

**JG:** Where are you seeing opportunities now?

**AM:** Right now is a really challenging time because you're in a scenario where that tail risk has been removed. Is Trump going to literally drive the US and global economy off a cliff? We've removed that and the markets have gone up. Now we're going to have to wait for the economic data to make sure the US economy is ok.

We're positioning a bit like back in February - reducing GDP sensitive stocks and adding to companies that have been sold off with the valuations that we're very confident about.

But here is where it gets exciting James. In April, U.S. small caps hit their lowest valuation in a long time. They nearly hit their lowest PE [price to earnings ratio] since COVID and the GFC - around 12 times. U.S. Small caps are already pricing in a recession.

So there's a real asymmetric payoff for small caps, and that has me excited and it's why I'm still putting money into our own funds. Because all the academic studies will tell you that starting valuation is your best guide for future return in an asset class, and U.S. and global small caps are cheap versus their own history, and very cheap versus large caps. Now, to me, these are the times you make your money.

**JG:** What's the one stock that has you really excited right now?

**AM:** One of the companies is Life360. This is a platform business that is growing organically above 20%. It's a family safety app that has been acquiring customers when their marketing dollar is staying flat. How good is that? You're getting bigger and bigger and bigger, but you're not spending any more on marketing.

The platform nature means at the end of this year, they're going to launch a pet business which enables pet tracking. And then they're going to have elderly care, which is going to be linked with technology around your house. If Nana hasn't moved for a bit, you get alerted, and you can give her a call and just make sure she's ok.

This is the platform, but they've also got advertising. And our view on the advertising is that the location sharing nature of this app is so powerful that there's a significant amount of money that they can make in advertising.



Source: Morningstar

Life360 has got 80 million monthly users around the world and is growing at 20 to 25% a year. We think out of all the businesses that we look at, this is one that could be a very big business in the future.

The biggest risk is Apple. Life360 works across Android and Apple. Apple has its own location sharing app, and if it beefs that up, it could be a risk.

We've been supporters of Life360 since it was around \$2.50 a share, and we've followed it all the way through this journey. And we really pleased with what they're doing and the power of this platform business, which is unique in the Australian market.

*Andrew Mitchell is Founder, Director and Senior Portfolio Manager at [Ophir Asset Management](#), a sponsor of Firstlinks. This article is general information and does not consider the circumstances of any investor. The Ophir Opportunities Fund currently ranks as the number 1 performing Australian Small Cap fund over 1, 2, 3, 5, 7, 10, and 12 years out of around 50 funds (according to the Mercer survey).*

*Read more articles and papers from Ophir [here](#).*

## Investor warns of danger in Big Super's pet asset class

Dan Lefkoviz, Dan Rasmussen

*The following is a partial transcript of an interview given by Verdad Capital's Dan Rasmussen to Dan Lefkoviz for Morningstar's Long View podcast.*

**Lefkovitz:** You worked in the private equity space as an investor, but you write in your book that private equity is the single biggest mistake that investors are making in markets today. Could you explain what you mean?

**Rasmussen:** I think that one of the elements of meta-analysis is to look for correlated beliefs. Places where everybody seems to agree, but where they might not be right, and where maybe logic and first principle suggests that they aren't right. Private equity is a place where, if you think about the profit share of private equity companies, the share of the total aggregate profit created by private firms relative to publicly listed firms, they're probably about 2% to 4% of the aggregate profit pool. Right now, private equity folks will always say, well, there are huge infinite number of private companies and very few public companies. And so the opportunity set is much bigger outside of the public markets. The problem with that is that the private companies are much, much, much smaller than public companies. Yes, there are thousands and thousands of dry cleaners. But add up all the dry cleaners in the world and you don't even get to one Facebook.

So, the number of companies doesn't matter. It's the aggregate profit share. And that's again, quite small. Private equity deals are micro caps generally. The median market cap is less than \$200 million, about \$180 million. And again, micro caps as a corner of the public equity market are tiny, tiny, tiny. Single-digit percentages. And yet you're seeing very sophisticated investors—endowments, foundations, even pension funds—putting 40% of their money in private markets. This is a massive, massive overweight of micro-cap companies in their portfolios. So first of all, there's a flood of money, an excessive amount of money relative to the opportunity set flowing into this space. The second part is around risk. If there's one thing we know about really small companies, it is that they're distinctly more risky than large companies. They're more likely to go bankrupt. They're less diversified. They're more volatile. And the next thing that we know is that private equity deals are leveraged. They borrow a lot of money.

And so, you're looking at leveraged companies, very leveraged companies that are very small. You're looking at a very, very, very risky set of companies. And so to take 40% of your portfolio and put it in these very small, very leveraged, very risky companies is a very, very risky decision. Now, if you're going to take that risky decision, you must have a view that private equity is going to somehow dramatically outperform public equity markets for you to take on this

incremental risk. And by the way, incremental illiquidity. But I would argue that it's unreasonable to have that assumption for a few reasons. I think one is that the valuations today in private equity are actually higher than public markets. It doesn't always look like that from the statistics, but what the statistics that are quoted are often missing is that private equity reports pro forma numbers, pro forma, EBITDA. Pro forma EBITDA is often very different from GAAP if there was a GAAP concept of EBITDA, but the way public companies would calculate EBITDA. And so those adjustments are often about a third of the difference.

What you're seeing is these very inflated valuations in private markets funded by massive amounts of borrowing from private credit. Allocators putting huge percentages of their endowments or pension funds into this asset class. And by the way, they're doing so at very high fees and with illiquidity. My view is that that's the tremendous amount of correlated risk. Everybody's doing it. Everybody's doing it in way bigger proportion than the actual economic substance of what they're investing in would justify, all with the same correlated belief that private equity will outperform. And I think it's not going to end well. Debt-fueled, illiquid asset over allocation rarely does. And this is, I think, one of the biggest risks that large, sophisticated investors face today.

**Lefkovitz:** What about the trend that so much capital formation is happening in private markets these days? We have all these unicorns that are staying private for so long. And so much of their growth is happening off of public markets. And so investors just to get exposure to the entire opportunity set need to include private markets.

**Rasmussen:** Yeah, again, it's often pitched that way. But as a percentage of the actual amount of profits or even revenue in the economy, it's very, very small. So yes, they're salient examples. There are few of these companies that stay private for very long periods of time. But for every one of those, there are often unicorns that lose their horns or whatever that you don't hear about that seemed like they were going to become massive winners that go bankrupt or whatever it might be. Those salient examples are often lost. And so I think that people have to be very, very wary of these illiquid asset classes and make the meta-analytic judgment of why this opportunity is so much better than public markets to justify the fees and the illiquidity. If your answer is that the markets are less efficient, well, I'm sorry, if everybody's putting 40% of their money into this, it's not inefficient. Or if your argument is that private equity operators improve the companies they own, well, 40 or 50% of deals are sponsor to sponsor. So if BlackRock didn't and Blackstone didn't improve it, when KKR buys it from them, they're going to improve it again.

How could this kind of constant improvement be some constant edge for the asset class? I think a lot of these stories are concealing the realities that this is leveraged microcap and technology these days. It's very heavily technology focused, leveraged microcap tech investing in an asset class that has seen massive inflows. And by the way, those inflows seem to have stopped. All the tailwinds from the increased fundraising, at least for now, seem on pause. And what you're seeing is that it's also very, very hard to exit. These companies are having a lot of trouble selling their portfolio companies, probably because they're not getting the valuations they want from them. Or the public markets don't like companies that are 8x leveraged or whatever these companies are. And so all those, I think, point to a moment where private equity, probably since the financial crisis has been roughly equal to the S&P 500's returns over the last two or three years, however, you've started to see the S&P have higher returns.

So those endowments that chose not to have large private allocations have been doing better. And so you'll start to see people wondering why did I take on this illiquidity risk? Why am I paying these fees for something that's not outperforming the public equity markets? And when the fund inflows turn to fund outflows, everything in financial markets is recursive. It's going to have a very negative impact on the asset class.

**Lefkovitz:** And you mentioned private credit. This is a really hot asset class these days, but you call private credit fools' yield. Why do you characterize it that way?

**Rasmussen:** So markets are efficient. We need to have a healthy respect for efficient markets. And so you have to ask yourself, why do Treasuries have a 4% yield and private credit has a 10% or 12% yield? What's the reason? And the reason is that the only thing that incremental yield can be pricing is bankruptcy risk, the risk of nonrepayment. And so private credit is making an interesting marketing pitch. They're saying, on the one hand, we earn higher yields. And then on the other hand, they're saying, but default risk is very low. We're going to say, well, if default risk was very low, why wouldn't you lend money at 5% instead of 12%? Surely these borrowers, if they were so high quality, and so unlikely to default, could access capital markets at much lower yields. Because the only thing really that yield can be pricing is default risk. And I think that what I would argue is that yields are actually a very efficient way of pricing default risk, that lending markets have been around as long as humans have been around.

There are wonderful series, like Moody's has great lending data back to like the 1920s, where you can see the default rates of all different companies by every different statistic. So the idea that pricing the yield at which you should lend to a company is a new field, or that there's been innovations, is probably hubris. And rather, we should have a healthy respect that most likely yields are efficiently pricing default rates. What we've actually found by looking over the last, call it 30 years of market history, is that yields are not returns. Returns are yields minus default rates. What you've seen is that as you go from AAA, Treasuries up to about BB bonds, sort of a fallen angel range, where a company like Ford, for example, today might sit. As yields go up, returns also go up. So realized returns are higher for BBB corporates than for US treasuries over long periods of time. You're earning some incremental risk by taking on corporate credit risk, which makes sense.

But after about that BB point, yields go up and returns go down, because essentially, people don't really have as good of a handle, 25% yield. It's very hard to price the default risk. You're just sort of saying, well, it's a really high default risk. So I really need a really high yield. But it ends up being that most often the default rates exceed that money. And part of it is people are just attracted to high yields. They think they're going to earn it, which is why I call it fool's yield. And there are enough idiots that are willing to lend at that rate that it pulls down the end total returns. And you can see this across so many wonderful examples like lending club, where people were lending at 25% yields and earning 5% results, where they could have lent at 5.5% to GM and earned 5.5% back, rather than lending at 25 and getting a 5% return.

I think the problem with private credit is that I think it's a classic case of fool's yield. These are risky borrowers. You just haven't realised the risk yet. And when you do, you're going to do it all at the same time, which is what happens in default cycles. You're going to realise why all of these companies had to borrow at 12%. The sort of a Venn diagram of high-quality companies that are never going to go bankrupt and companies that have to borrow at 12% is virtually non-existent. And that's because again, lending is such an efficient market. And of course, the private credit folks are telling you this themselves in some sense. They're saying, well, the banks thought this was too risky. And I sort of say, well, if the banks thought it was too risky, it's not like those guys at Goldman are shrinking away from great profit opportunities. There must have been reason they thought it was too risky and most likely it's that the banks had been around for a few cycles and private credit really emerged after the big financial crisis.

*This was a snippet from Dan Rasmussen's appearance on Morningstar's Long View podcast. You can [find the full episode here](#).*

*Daniel Rasmussen is the founder and managing partner of global asset management firm, [Verdad Advisers](#). Nothing contained in this article constitutes investment, legal, tax or other advice, nor is it to be relied upon in making any investment or other decisions. You should seek professional advice prior to making any investment decisions.*

## Government investment is remarkably effective

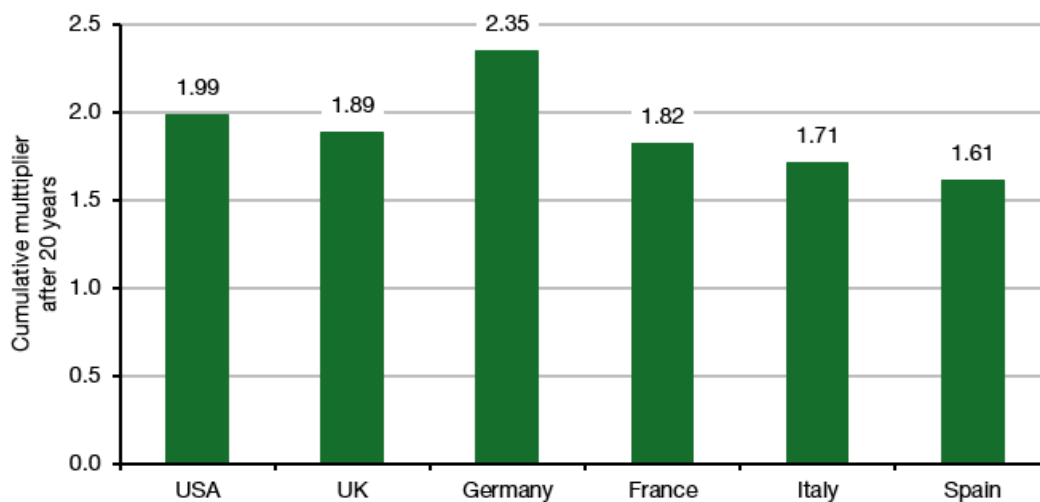
Joachim Klement

Government investment is frequently derided as wasteful and ineffective. And definitely worse than private investment. But is this true? A [new study](#) shows that public investments on average are a remarkably effective way to boost the economy.

The authors of the study collected macro data for 18 developed economies between 1965 and 2019 and estimated the impact of an increase in public or private investment.

Let's start with the private side because here the picture is unequivocally positive. After 20 years, every additional dollar, pound, euro, etc. invested by private companies increases the GDP by about two dollars. In the US, the exact ratio is 1.99 dollars for every dollar of additional private investment which equates to an annual return of around 3.5%. In the UK the multiplier is somewhat lower at 1.89x for an annual return of 3.2%.

**Figure 1:** Marginal productivity of total investment after private investment impulse



Source: Afonso et al. (2024)

When it comes to public investments the picture becomes more complex. First, the direct return on additional public investment is more likely to be negative than in the case of private investments. This is because public investments are often made in unprofitable areas to attract private capital or boost nascent industries. In this instance, the government acts like an insurance company that takes the loss to provide a safety net for private investors to come in and boost the industry or region. The combined effect of private and public investments on economic output can then be positive even though the public investment itself had a negative return.

The second chart shows how good governments are in creating additional GDP from public investments and here I was surprised about two things.

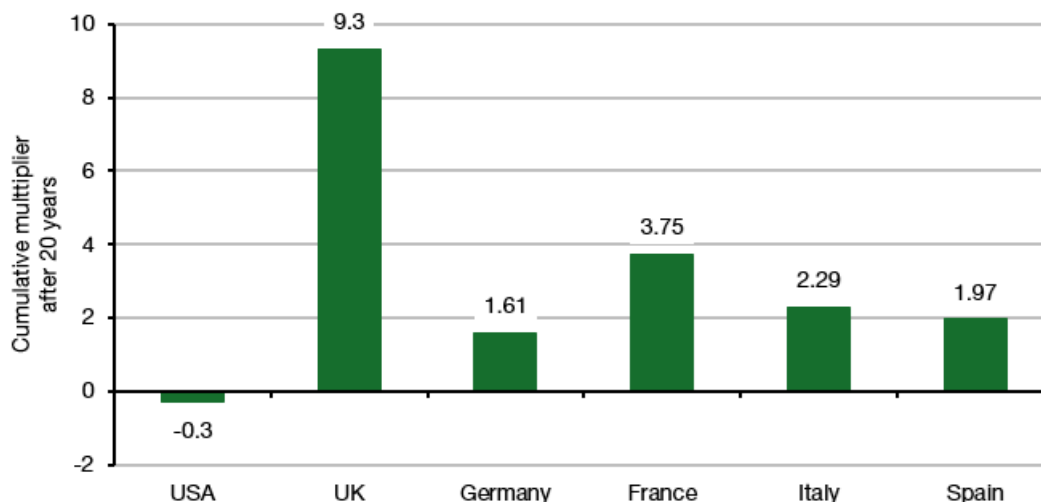
First, I was surprised to see how diverse the outcomes are between the major economies shown. In the US, public investment really seems to be wasteful and destroy output. Or US public investment simply isn't geared towards attracting private investments and boosting economic output because most of the economy is fully privatised leaving only areas that are intrinsically loss-making to the government. But outside the US, the multiplier is positive and higher than the multiplier for private investments (typically above 2x).



The second thing that surprised me was the tremendous multiplier of UK public investment on UK GDP. Every additional pound the government invests in the UK turns into 9.3 pounds of additional output after 20 years. That's a return of 11.8% per year.

I really have no idea why the UK is such an outlier, but even if we ignore that, the results of this study are clear: Public investments work and are remarkably efficient in boosting long-term growth. In most countries more so than private investments. Now, all we need to do is convince the public that they should welcome additional government investment even if it means lower spending in other areas like welfare.

**Figure 2:** Marginal productivity of total investment after public investment impulse



Source: Afonso et al. (2024)

Joachim Klement is an investment strategist based in London. This article contains the opinion of the author. As such, it should not be construed as investment advice, nor do the opinions expressed necessarily reflect the views of the author's employer. Republished with permission from [Klement on Investing](#).

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