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Editorial

'Entertaining' isn't a word normally associated with speeches from economists, so Westpac Group Chief Economist, Luci Ellis' keynote talk at last week's Morningstar investor conference in Sydney came as a surprise. And it was informative to boot.

Ellis is a former Assistant Governor at the RBA and known not only for her knowledge of the central bank but also the intricacies of the domestic economy.

In the speech, she first delved into the potential impact of the trade wars and she didn't hold back. Ellis described the tariffs episode as a "self-destructive act" by the United States. She thought some commonsense would prevail and tariffs for most countries would end up between 10% and 20%, with China, Mexico, and Canada being somewhat higher.

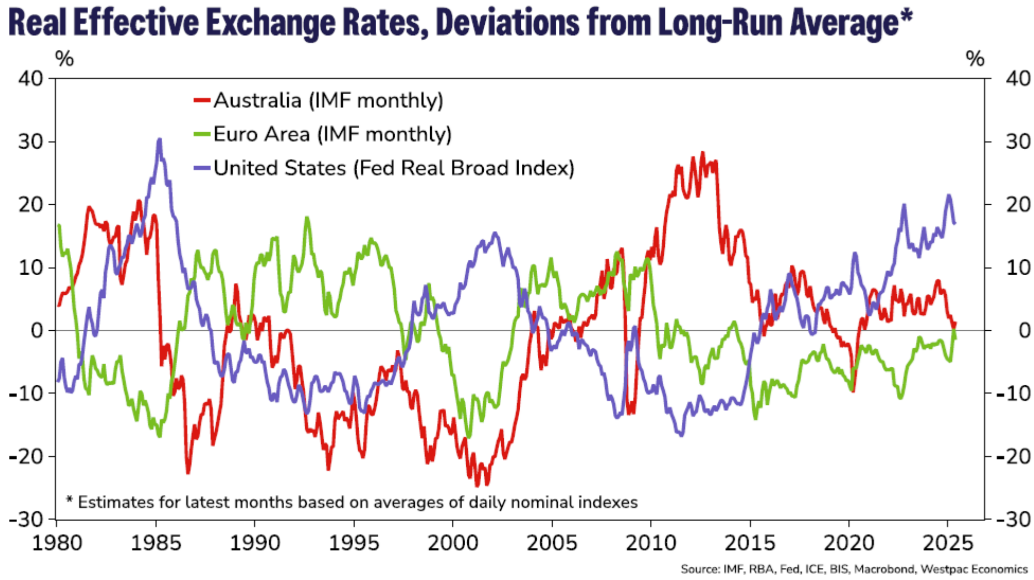
She said the tariffs would result in a major economic shock for the US, though it shouldn't end with a recession, either in America or globally:

"We will see trade patterns shift but what we won't see is a huge amount of production relocating back into the US. They're not going to start making the bicycles and T-shirts in the US again."

Part of the reason for this was that the US dollar remained 15% overvalued, making America "quite uncompetitive", according to Ellis. She described the dollar as more overvalued than at any time since the Plaza Accord in 1985.

How did she come to this conclusion? She highlighted this chart measuring real effective exchange rates:

USD is overvalued, will unwind over time



Ellis also supported her case by asking the audience of financial advisers if anyone had visited the US recently as she had – and cited how expensive things like restaurants were there, even without the tips. She said that's currency overvaluation at work.

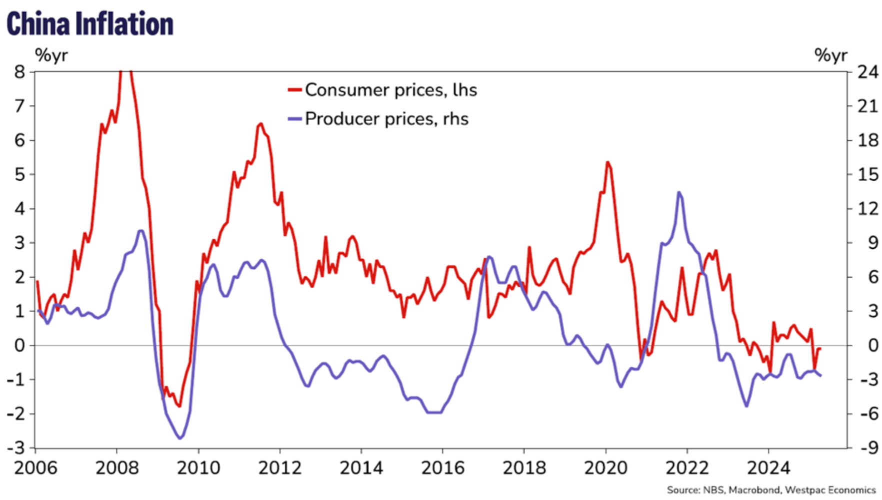
By contrast, she then asked the crowd if they had been to Japan of late. A lot more people raised their hands than for the US. Ellis said most of the audience wouldn't have been able to afford a holiday in Japan 20 years ago. And the change in exchange rates was behind this.

The US dollar overvaluation and senseless tariff wars were two big reasons why investors were starting to invest more outside of the US, Ellis believed:

"… they're not getting out [of the US] entirely, but everyone just wants to be a bit less long."

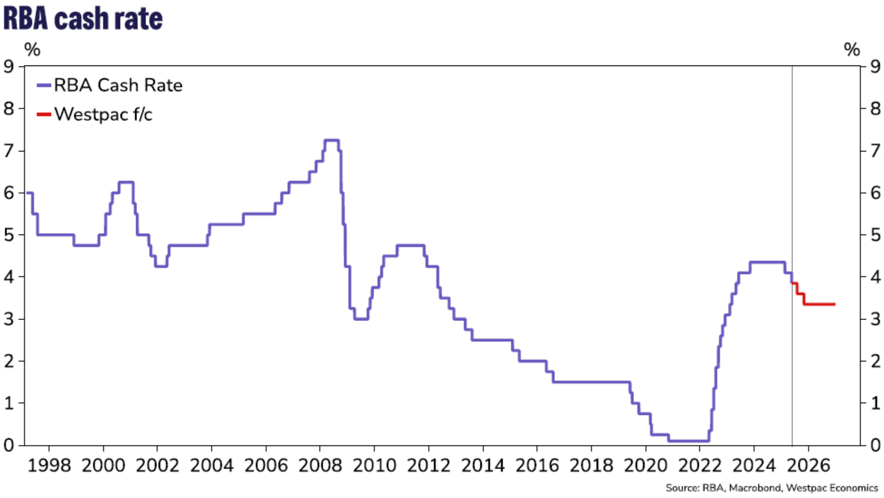
She cited two triggers for the unravelling of the 'US exceptionalism' narrative. First, the Oval Office meeting with the Ukrainian leader, which made investors realise that America could no longer be counted on as a reliable ally and trade partner. Second, Germany changing its constitution to allow more defence spending. Investors were looking into the opportunities presented by more spending in Europe.

Ellis said there were other challenges to US exceptionalism. While tariffs would provide an inflationary impulse to America, the rest of the world would continue to experience a deflationary shock from China due to its weak domestic demand and inflation.



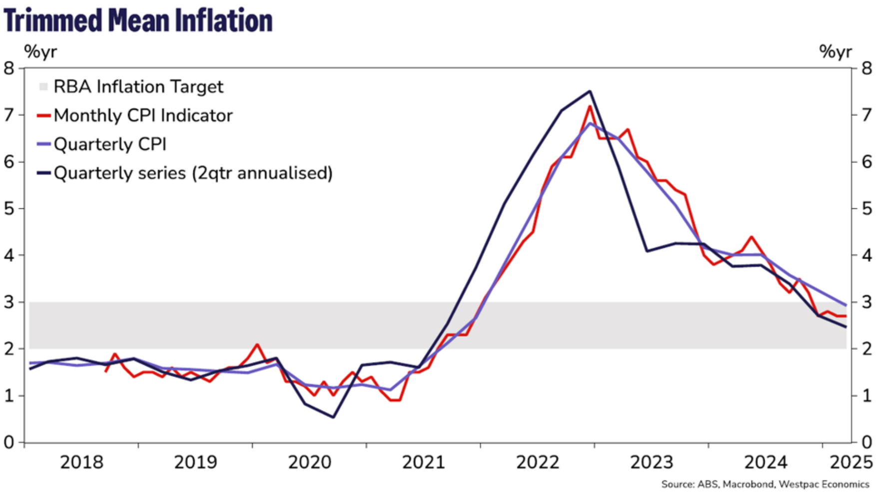
Implications for Australia

Ellis said the RBA had been a reluctant rate cutter but the global risk shift combined with slowing inflation and wages led it to reduce interest rates in May. And we're likely to get two more rate cuts this year.

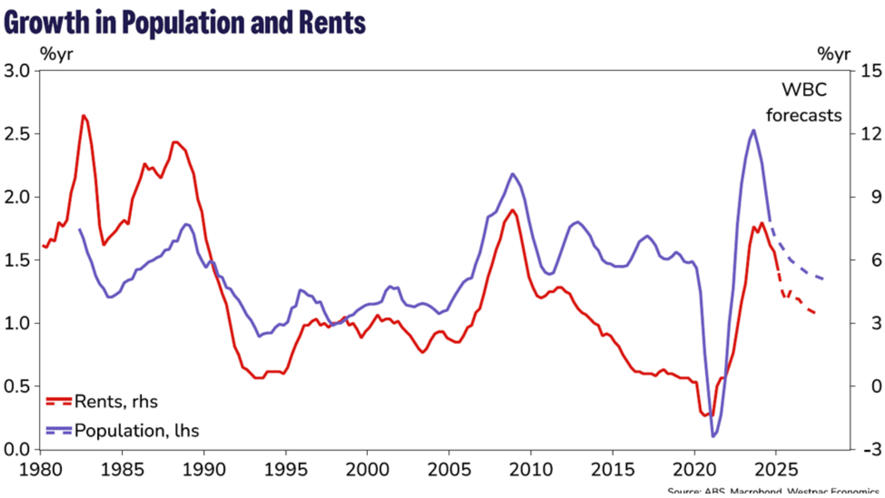


All data on inflation indicate it's headed lower.

Near-term inflation momentum is constructive

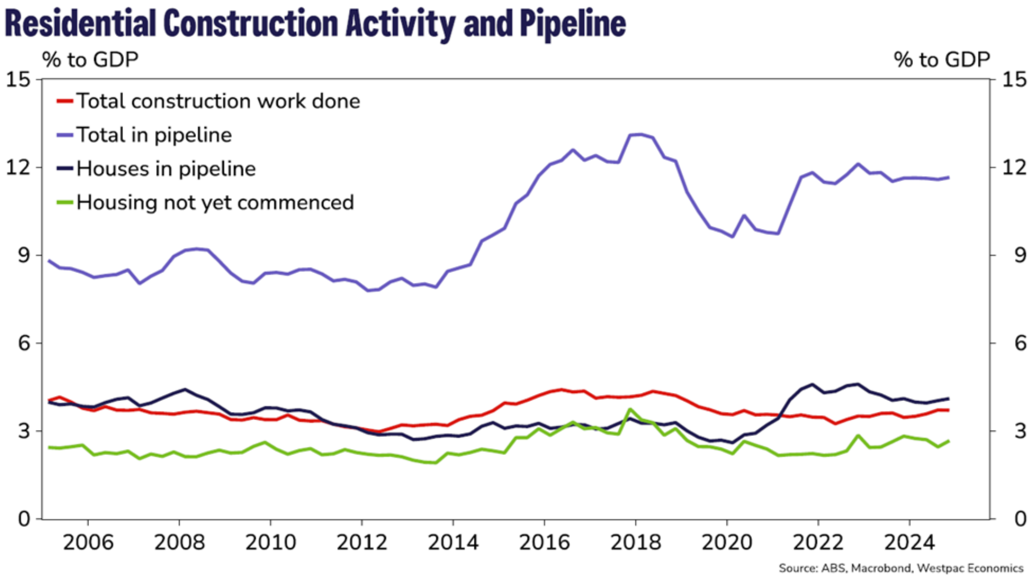


Rental inflation is part of the picture. It's fallen faster than Ellis expected as population growth normalised.



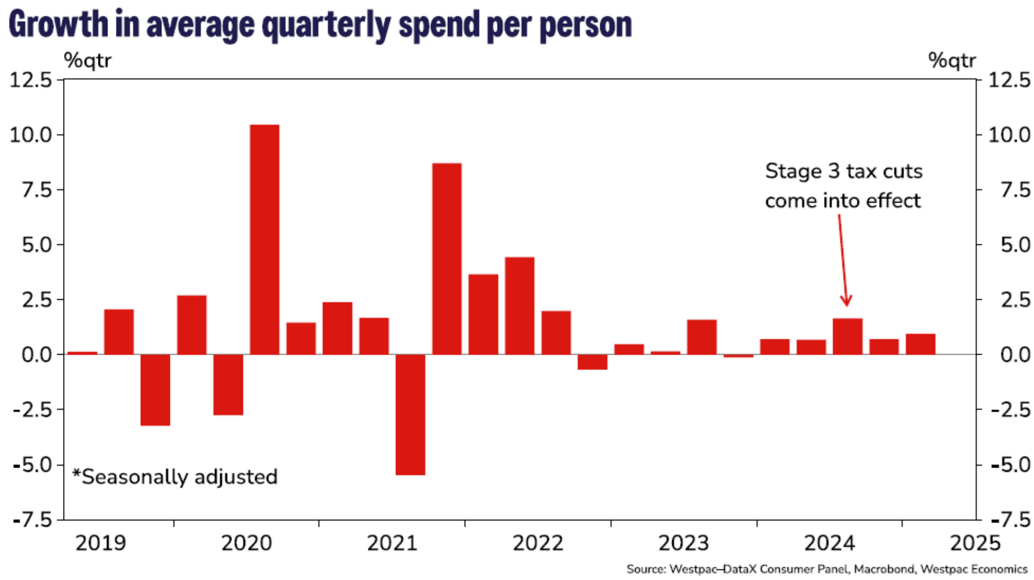
Ellis said the housing market was caught in a tug of war between slowing population growth and cuts to rates. It's expected to result in moderate house price increases.

The other issue is housing supply. Ellis suggested there's a severe backlog in construction, with homes being approved but not being built due to high costs. A gradual increase in supply is going to be another part of the tug of war that will keep a lid on house prices.



Ellis said the economy was being held back by subdued household spending. She cited proprietary Westpac data on all of its individual customers (as a Westpac customer, this had me a little concerned) that showed people only spent 20% of the recent tax cuts.

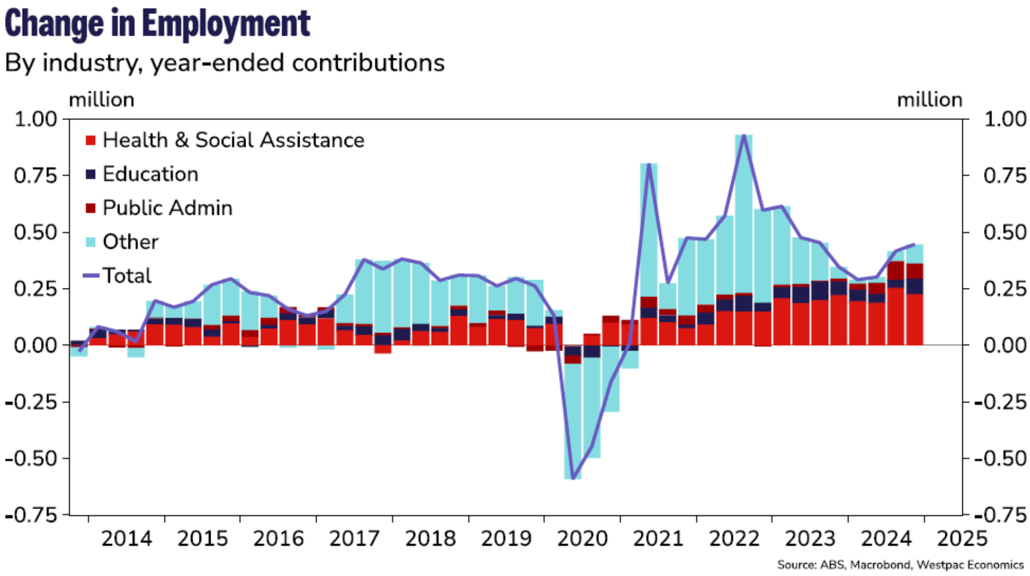
Modest spending response to Stage 3 tax cuts



Consumer sentiment remains subdued despite a recent uptick in wages growth. And that's despite most having a secure job, with the country's unemployment rate remaining low.

Ellis said that's deceptive though. In 2023-2024, 80% of jobs growth came from the 'care economy', which constituted only 28% of total employment.

Ramp-up in ‘care economy’ has dominated employment growth



What happens in 2026?

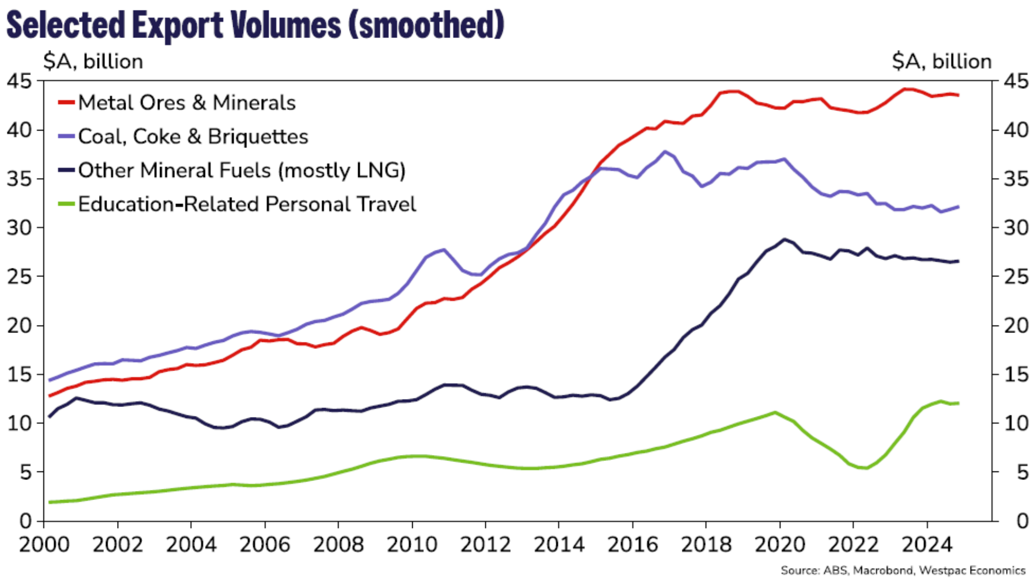
Ellis said the outlook for Australia hinged on how the global trade disputes panned out. She doesn’t expect a global recession. For Australia, the election result implied no big changes to the outlook for government spending, and she thought consumer spending would remain weak.

Does the RBA end up providing extra support via more rate cuts? That’s not Ellis’ base case, though most of the risks were on that side.

One bonus chart

This chart from Ellis on Australian exports was fascinating:

Key Australian export volumes are ‘capped’



It showed that the largest sectors for exports – iron ore, coal, LNG, and university education – were flatlining. They all had a huge ramp-up in the first couple of decades of this century, and they’re now “capped out”, in Ellis’ words.

On iron ore, Ellis said China had reached peak steel, though it would remain steel intensive. While that means iron volumes and prices won't increase much, they won't tank either.

Was Ellis worried about the big four exports being capped out? Not especially. She thought growth would come from elsewhere. For instance, we have a growing export industry called software licensing, worth about $7.5 billion. Think Canva, WiseTech, and Atlassian. We now export more in software licensing than we do in copper, aluminum, barley, or rice.

I'm not so convinced on Ellis' optimistic take on the issue given software remains small fry compared to the likes or iron ore and coal.

One bonus thought

Ellis was asked about our productivity issues. Given all the moaning from business leaders for the Government to do something about it, Ellis' answer was refreshing:

"I want to make it clear that Australia is the only country that thinks that productivity is something the Government does to you, and it's somehow the Government's responsibility to fix our productivity problem."

She said aside from the US, the whole world has had a productivity issue. And America may be a statistical anomaly as some of its labor force wasn't documented, thereby impacting the data.

Ellis thought it's our responsibility to fix the productivity problem, not the Government's. We need to ask ourselves how we can be more productive. How can we change business processes? What can we invest in? What technology should we adopt?

To that I say: hear-hear.

James Gruber

Also in this week's edition...

The $3 million super tax debate has heated up since the election led by vocal lobbyists against the tax. **Harry Chemay**, a long-time consultant and adviser across wealth management, super and SMSFs, jumps into this discussion with a contrarian view - that the tax represents a reasonable step to making a fairer super and retirement system. In a detailed note, he explains why.

Staying on the super tax, **Clime's John Abernethy** says the inequities in the super system date back to poor policy decisions made by Parliament in 2005-2006. He goes through the history and how it's connected to the debacle now emerging with the defined benefits scheme for public servants. It's a must-read for those who want to understand how our super system got to this messy point.

We need to have an honest conversation about migration and housing, **Cameron Kusher** believes. He says our Government is running world-leading rates of population growth while underinvesting in housing and infrastructure. He outlines what needs to change.

Who doesn't love to buy a stock on the cheap? Almost always within sectors, there are companies that appear inexpensive versus others, and are perhaps due to play catch-up. Yet **Rudi Filapek-Vandyck** has gone through the recent history of the ASX and suggests that buying the 'cheap' stocks hasn't paid off, on average. Instead, purchasing the pricier market leaders has been the better strategy.

What's the outlook for dividends on the ASX? **Plato's Peter Gardner** runs through the different sectors to identify the opportunities and risks for dividends from our large cap companies.

With bonds looking shaky and stocks offering less in the way of dividends than they use to, where do investors go for income? One potential source is corporate bonds. **Jenna Hayes** gives an overview of the asset class, how retail investors can access it, and specific opportunities that offer high yield.

Is the US still a model for democracy? **John West** thinks not, and it's not just a Trump issue. As a long-time Asia hand, West compares the US to the Asia Pacific region, where democracy is becoming more entrenched and, barring China, the future for democracy and freedom appears brighter.

Finally in this week's whitepaper, **Vanguard** offers its views on the outlook for economies, markets, and asset classes.

The case for the $3 million super tax

Harry Chemay

The super system is once again in the media spotlight, this time for the Government's proposal to wind back some of the tax breaks [estimated at $55 billion for 2024/25], via its 'Better Targeted Superannuation Concessions' tax (hereafter referred to as the 'Div 296' tax).

This measure will effectively impose a 15% tax on super earnings equal to the percentage of an individual member's 'Total Superannuation Balance' exceeding $3 million for an income year. By applying the measure to TSBs, it captures both the accumulation and pension phases of super.

Somewhat controversially, the measure as proposed is not indexed for either inflation or wage growth, meaning that over time more individuals will be impacted than the 80,000-odd people (some 0.5% of all taxpayers) forecast during its first scheduled year of operation.

In addition, the method chosen to calculate the change to year-on-year earnings has many commentators and economists calling Div 296 a *tax on unrealised capital gains*, a position that, if true, would reverse decades of tax precedent and regulation.

I've spent near-on 30 years seeing the super system mature. In that time, I've advised individuals, including ultra-high net worth clients, on their wealth management strategies, of which Self-Managed Superannuation Funds (SMSFs) have become a key component since 2006-07.

I've also worked with APRA-regulated super funds and so understand the way in which superannuation earnings, and taxes thereupon, are calculated and equitably applied across vast memberships, sometimes numbering in the millions.

On balance, I think the Div 296 tax is a reasonable approach to improving the long-term sustainability not just of superannuation but the entire retirement income system. Here's why.

Super – a tale of two sub-systems

While the super system entered 2025 north of $4 trillion and with 17 million members in aggregate, it is better conceptualised as being two very distinct sub-systems, broadly consisting of APRA-regulated funds on the one hand and SMSFs on the other.

As the table below indicates, APRA-regulated funds account for about 94% of all members while holding approximately 76% of system assets.

SMSFs, by contrast, make up 6% of members but hold some 24% of assets.

	APRA-Regulated	Self-Managed Superannuation Funds
Number of Members	~16m (23m# active accounts)	~1.1 million#
Sub-system Balance	$3.15#^ trillion (Dec 2024)	$1.02# trillion (Dec 2024)
Median Age	N/A	62.5*
Median Member Balance (60 – 64)	$208,000## (male) $167,000## (female)	$1,025,581* (male) $881,516* (female)
Min Account-based pension (5%)	$18,750 (couple combined)	$95,355 (couple combined)
% in Partial or Full Pension Mode	<10%#	44%*

Source: # APRA (2023-24) ^ includes exempt public sector & life statutory office assets ## Treasury (2022-23); * Australian Taxation Office (2022-23)

SMSFs have significantly larger balances on average, with the median near-retiree couple holding a combined $1.9 million, five times the super held by the median APRA-regulated equivalent couple.

That, in turn, translates to a substantially higher level of minimum private income in retirement, were these respective balances to be fully converted into account-based pensions.

With recent reporting revealing that 42 SMSFs currently hold assets in excess of $100 million, it is unsurprising that interests connected to this sector are the most vocal in opposing the Div 296 tax.

Stabilising the retirement income system

Australia's retirement income system is book-ended by the two key supports to retirement: the Age Pension and superannuation.

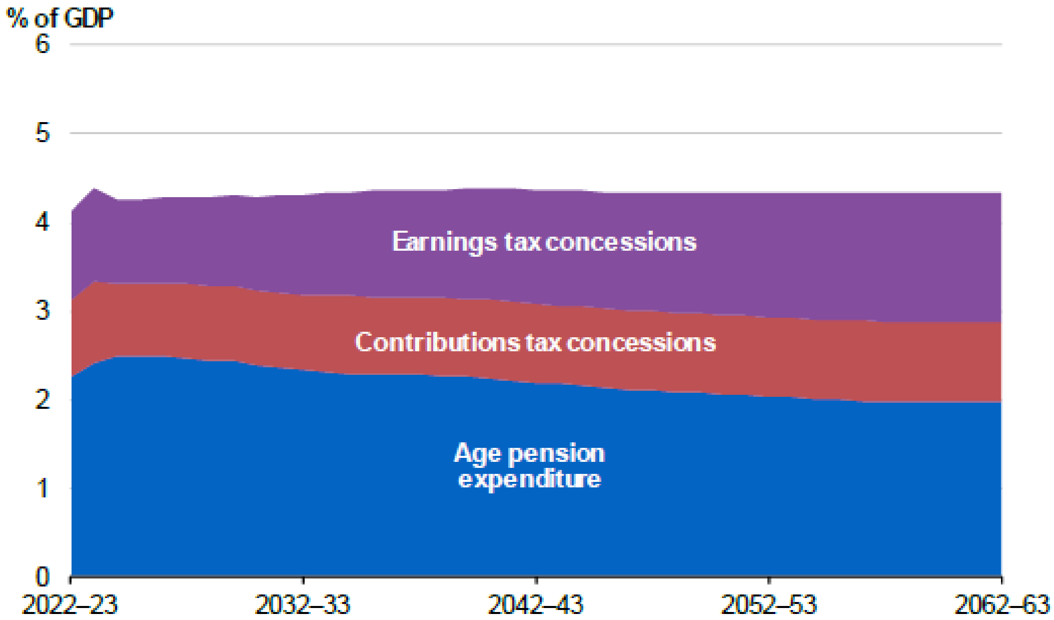
The latter was conceived as *'a system of more adequate private provision of retirement income, sympathetically interfaced with the public pensions system'*, according to its chief architect, Paul Keating. Tax concessions were seen as central to encouraging this private provision, beyond just the employee super guarantee contribution.

Given the tax arbitrage on offer between the top marginal rate and 15%, higher-income individuals have embraced super (often via SMSFs) as a perfectly legitimate way to optimise their financial affairs. After all, no one should feel compelled to pay one more dollar in tax than they are legally required to.

At present, the top 20% of income earners receive over 55% of the total benefits from earnings tax concessions, with 39% going to the top 10% alone.

From a sustainability perspective however, these tax concessions now have a life of their own and will by the mid-2040s cost taxpayers more than the Age Pension, according to Treasury's latest Intergenerational Report, and the chart from it below.

Chart 7.21 Fiscal impact of the retirement income system



Note: Includes Service Pensioners. Further information is in Appendix A3.

Source: Treasury.

It is estimated that between now and 2062-63, the cost of the Age Pension will reduce from 2.3% to 2% of GDP. Super tax concessions will by then be 2.4%, driven primarily by earnings tax concessions rising from 1% to 1.5% of GDP.

That would be ironic indeed, with the system implemented to contain the burgeoning expenditure of the Age Pension costing taxpayers more than the policy problem it set out to fix.

Earnings tax concessions grow in line with overall system growth, and so the only way to throttle back this tax leakage is to target high balance members, as the Div 296 proposal seeks to do.

In effect the Government is saying that $3 million for an individual (or up to $6 million for a couple) is a reasonable amount to accrue in superannuation, and anything beyond should not be as generously taxed.

Given that [$4 million] of such a couple's combined super could currently sit in non-taxed pension accounts once 60, with the balance taxed at less than 15% (more likely around 7% depending on investment composition, franking credits and the accumulation/pension split) it is difficult to argue otherwise, when the median retiring couple today has about one-tenth that amount.

Back to the future – sort of

Having been in super for as long as I have, I can't help but make the connection to the former Reasonable Benefit Limit (RBL) regime, which commenced in 1990 and provided two indexed amounts each year; a lump sum RBL commencing at $400,000 and a pension RBL commencing at $800,000, beyond which super benefits were taxed at the highest prevailing marginal tax rate.

The RBL regime ended with the 2006/07 Budget and the then-Government's 'Simpler Super' reforms, which also removed a host of other taxes on different elements of super benefits.

In that last year of operation, the lump sum RBL was $678,149 and the pension RBL was $1,356,291.

I've indexed the above RBLs for average weekly earnings from 2007-08 up to June 2024, and the equivalent pension RBL (if still in existence) would be just over $2.5 million.

Which is suggestive that the proposed Div 296 tax limit of $3 million in 2025 is sensible, while the Greens stance of wanting it lowered to $2 million isn't. Further, taxing amounts above $3 million at 15% is markedly more equitable than at the top marginal rate, as happened with RBLs.

While it is farcical to suggest that the median Australian worker will accrue a super balance in excess of $3 million inside 40 years (Treasury modelling suggests a balance in 2019 dollars closer to $500,000 by 2060 for males, 10% lower for females), given that RBLs were indexed to wage growth I believe a precedent exists to similarly index the Div 296 tax, and that indexation should be implemented sooner rather than later.

As for the taxing of unrealised gains, I would note that members of APRA-regulated funds already are, insofar as the daily unit price for any accumulation option contains an estimate of fees, costs and taxes, including an estimate of realised and unrealised gains periodically adjusted to ensure estimate matches actual by year's end. That is merely a function of the unit trust structure of such funds, and necessary to maintain equity between members entering and exiting either an accumulation option or the fund itself.

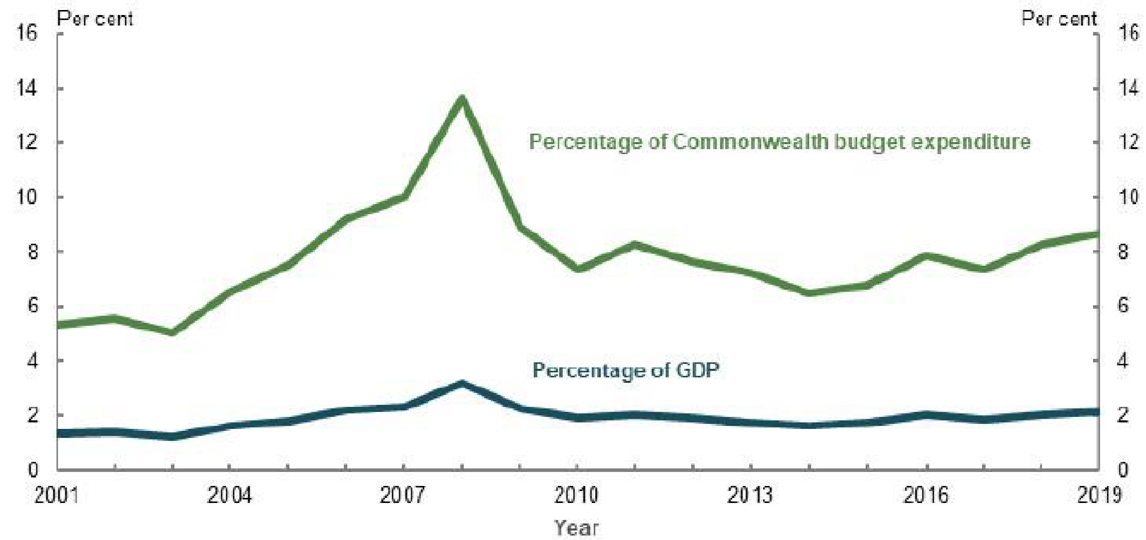
Right-sizing super concessions

Div 296 is trying to repair some of the earnings tax largess that was created in that 2006/07 Budget, which saw an unprecedented amount of wealth flow into the super system prior to 1 July 2007.

I know this because I was an SMSF adviser at the time, and it is to this day the most hectic financial year I've ever experienced, helping wealthy clients channel up to $2 million of after-tax contributions combined, often from other wealth vehicles. That was thanks to the '$1 million transitional non-concessional cap' which operated between 10 May 2006 and 30 June 2007, and the promise of a retirement free of both income tax and capital gains tax once in SMSF pension phase past the age of 60.

It is no coincidence that the cost of tax concessions in 2007-08 was exorbitantly high at $46.6 billion, as the below chart from the Retirement Income Review depicts.

Chart 4A-7 The cost of superannuation tax concessions



Source: Analysis of Tax Expenditures Statement 2004 to 2017 (The Treasury, 2018b), Tax Benchmarks and Variations Statement 2018 to 2019 (The Treasury, 2020), (ABS, 2019d), and data provided by The Treasury for the review.

Those with the means were merely taking advantage of the opportunity on offer, as was their right, often with the help of professional advice.

The consequence, however, is that those with a super balance larger than $3 million increased from less than 5,000 people in 2005 to over 30,000 in 2017, now some 80,000.

A superliner in need of a rebalance

In a piece penned in 2020, I spoke of the super system as a 'directionless supertanker'; gargantuan in size but without any real sense of purpose.

With the legislating of an objective for the super system late last year, being "*to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way*", it now is more akin to a mega cruise ship carrying thousands of passengers and crew.

These modern floating cities are cavernous, complex entities allowing people with different aspirations and resources to sail together; albeit enjoying different experiences according to individual preference and financial capacity.

From inboard cabins for the budget-conscious to presidential suites for the luxe inclined, it is the responsibility of the cruise company, and the captain in charge, to balance the interests of all aboard so that everyone arrives at their destination better for having taken the journey, despite the occasional bumpy episode.

That's the challenge that this Div 296 proposal seeks to address to the benefit, in my opinion, of the entire retirement income system in the longer-term.

Harry Chemay has over 28 years of experience in wealth management and institutional asset consulting. Initially a private client adviser with an SMSF focus, he now consults across wealth management, FinTech and APRA-regulated super funds, with a focus on improving post-retirement outcomes.

The super tax and the defined benefits scandal

John Abernethy

The proposal to tax unrealised capital gains in super/pension funds above $3 million has an origin story – it is a consequence of poorly designed policies adopted by the Australian Parliament almost two decades ago.

Let's review the context and wind back to 2005/06.

Parliament had just closed the unfunded pension benefits flowing to defined benefit public servants in 2005. These pension benefits had the potential to blow future Australian budgets apart. Indeed, they committed future generations to pay for the excessive pension entitlements of some Commonwealth public servants. These pensions entitlements were neither properly scoped, nor appropriately funded, inside future forecast consolidated revenue (i.e. from tax receipts).

After closing Defined Benefits, the Parliament then restructured superannuation and pension rules for the public. In doing so it created and set into motion both excessive contribution opportunity and an excessively low super tax regime, for those that could fully access it (i.e. very wealthy people).

It was a well cloaked arrangement between the Parliament and Australia's influential and wealthy - to retain excessive indexed pension entitlements for retired and retiring public servants, (including politicians and senior bureaucrats) whilst granting benefits to a wealthy elite.

It is important to acknowledge that Defined Benefit beneficiaries dominated the seats of Parliament of 2006. Today, we can clearly identify the personal conflicts of the parliamentary members in these decisions, and it should have been more deeply scrutinised at that time.

In that bygone era – 2005/06 – the Australian Government was flush with funds. A budget surplus with little debt after many public assets were sold. Then looking at the growing future financial liability, the Parliament closed the 1990 Public Sector Superannuation Scheme (PSS) to new entrants (public servants including politicians).

However, it also effectively grandfathered the generous entitlements of those in the scheme and did so without a proper analysis of the cost of doing so. That cost has become horrendous.

The cost of Defined Benefits to taxpayers is far greater than the tax benefits in superannuation accounts that are larger than $3 million, noting that in 2016 transfer balance caps were introduced.

The PSS and the Future Fund

Depending on the individual circumstances of a PSS member, the retirement benefit can be taken as a CPI indexed pension, or a lump sum amount, or a combination of both. The PSS replaced the original Commonwealth Superannuation Scheme (CSS) that was closed in 1990. It is interesting to reflect that the CSS had less favourable after-tax benefits than the PSS. However, tax is levied, after rebates, on both PSS and CSS pensions.

Concurrently, the Future Fund (FF) was established in 2006 to 'make sure' the Government (i.e. the taxpayer) was able to meet its "unfunded defined pension liability". In 2006 the FF was designed to match the funds required to pay every PSS and CSS pension out to 2046. The original concept and structure, under advice from Treasury and the Commonwealth Actuary, was that the FF could not be accessed until either the year 2020 or until the FF accumulated $140 billion.

Remember the actuary said that $140 billion would match out the Defined Benefit liability. How wrong they have been!

Today the FF has $240 billion of assets, and it is not expected to pay a pension until 2032 at the earliest. In fact, it was the delayed closure of the Military and Benefits Scheme Superannuation (for eligible ADF personnel) in 2016, that has exacerbated the financial debacle for Australian taxpayers.

Current budget estimates suggest the FF is underfunded by over $80 billion. But it would not be unreasonable to suggest the underfunding is still hundreds of billions, with Defence personnel pensions to grow through to 2060 (see FY25 budget papers).

Australian taxpayers are being misled and treated with contempt. The AFR noted this week that consolidated revenue, which is mainly the taxes of Australian taxpayers, is paying about $20 billion in defined benefit pensions in FY25.

Inside the cohort of defined benefit beneficiaries are mostly people who are modestly and appropriately paid a CSS and PSS pension. These are people who worked hard for the Australia public service and deserve appropriate treatment.

However, there are also some seriously well-off recipients of defined benefits who will receive many millions of dollars of payments over their retirement years. All resulting from the 2006 decisions of the Howard Government that were flagged through by the Labor Opposition. A Parliament that was full of conflicted of interests.

To understand the diabolical issues of defined benefits, let us consider the benefits flowing to a high-profile ex-politician, or an ex-Defence Senior officer, or an ex High Court judge, who is reported as receiving a $300k defined benefit pension in FY25. Further, let's assume that they are in their early 70s.

These pensions will be indexed each year and so let's assume this is at the rate of 3% per annum. The result is as follows:

1. At 75 years the pension rises to $327k.
2. At 80 years it rises to $380k.
3. At 85 years it rises to $440k.
4. At 90 years it rises to $510k.
5. At 95 years it rises to $590k.

Think about the numbers and you see that over the ten years to 85, the pension receipts aggregate to about $4 million, and over the ten years to 95 it aggregates to over $5 million.

Would a 90-year-old need $510k a year to live on?

Therefore, is it likely that these funds would flow from the beneficiary to others in a type of living estate?

Is that what Defined Benefits pensions designed to do and are they consistent with Australia's superannuation policy?

Let's be honest with the superannuation tax debate

This brings us to the current debate. In its essence it is about what an appropriate balance is to have in a pension fund. The Government seems to suggest that $3 million is excessive and therefore is legislating for the tax benefits that were created in 2006, to be reset.

The policy restructure, and the introduction of unrealised capital gains tax, is proposed under the guise of our retirement policy that declares:

"*The Australian superannuation and pension system is designed to fund a dignified retirement and not to be a tax-effective vehicle for intergenerational wealth transfers".*

If that is the case, then a 'reasonable' reset of the tax benefits that flow to large super accounts is proper BUT so too is the reset of the defined benefit pensions that can be regarded, on any reasonable basis, as being grossly excessive.

Australia's superannuation and pension policy needs to be reset and done so with a focus on integrity, transparency, and fairness. This is sadly lacking at present.

John Abernethy is Founder and Chairman of Clime Investment Management Limited, a sponsor of Firstlinks. The information contained in this article is of a general nature only. The author has not taken into account the goals, objectives, or personal circumstances of any person (and is current as at the date of publishing).

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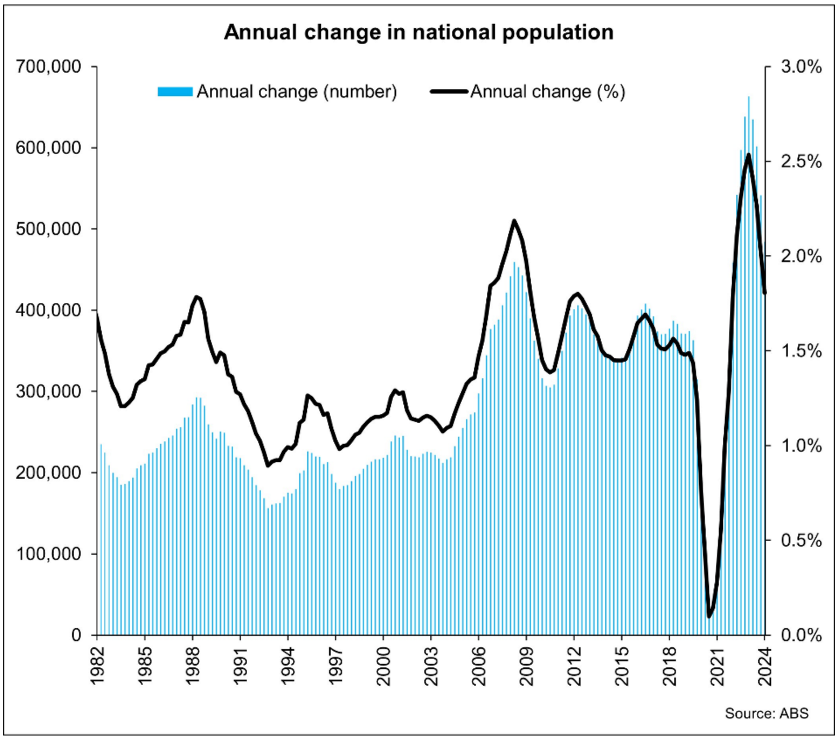
Why we can't separate housing policy from migration policy

Cameron Kusher

Since the international borders re-opened at the start of 2022, Australia's population has increased by an estimated 1,538,039 persons, of which 1,244,138 came from net overseas migration (80.9%) and 293,901 came from natural increase (19.1%).

As this first chart highlights, Australia's estimated population increased of 663,218 persons or 2.5% over the year to the peak in September 2023 were far in excess of previous highs.



The arguments for migration are that migrants add to demand and grow the economy. Further to this, someone doing the same work in a less advanced economy will be better off doing it in a more advanced one. Another argument is that we have an ageing population. Attracting younger migrants grows the taxpayer base and supports the ageing population, although this seems like a zero-sum game as those migrants age and you have to rinse and repeat.

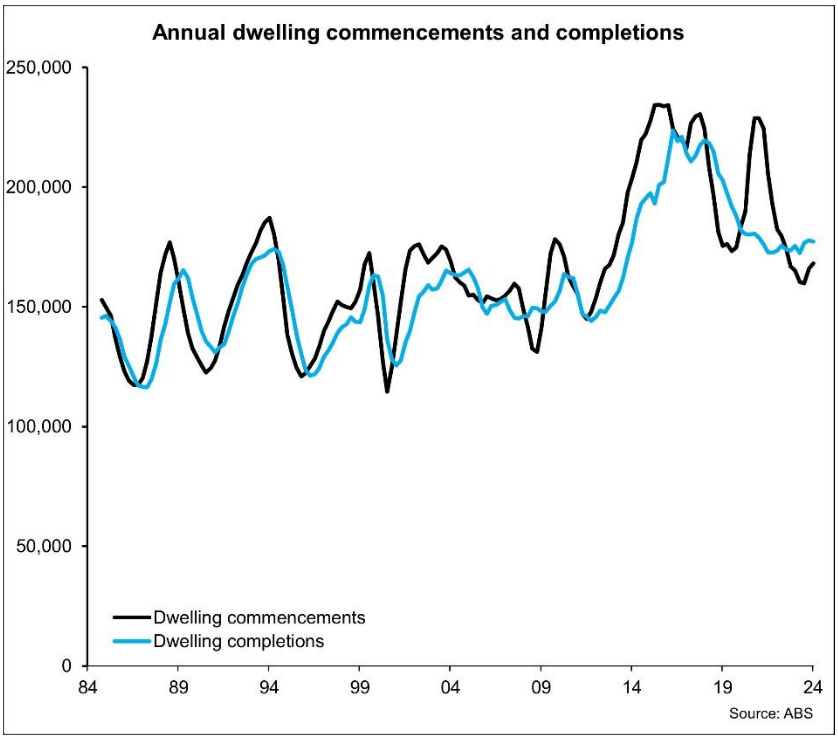
So there are some strong and well-founded benefits to immigration. However, if we look at what the outcomes have actually been over the past three years we see:

- Slow economic growth with more than two years of falling GDP per capita.
- An ongoing slide in GDP per hour worked (productivity)
- The largest reduction in household incomes per capita on-record
- A large surge in nominal property prices
- A surge in nominal rental costs
- Low levels of new housing construction.

The main positive that has persisted throughout the surge in population has been a low unemployment rate, however, this has not translated into a significant increase in household incomes. This is why there now appears to be such a backlash against immigration. I don't believe it is immigrants themselves that people see as the problem. It is the lack of planning for that immigration and the knock-on effect it has on everyone else.

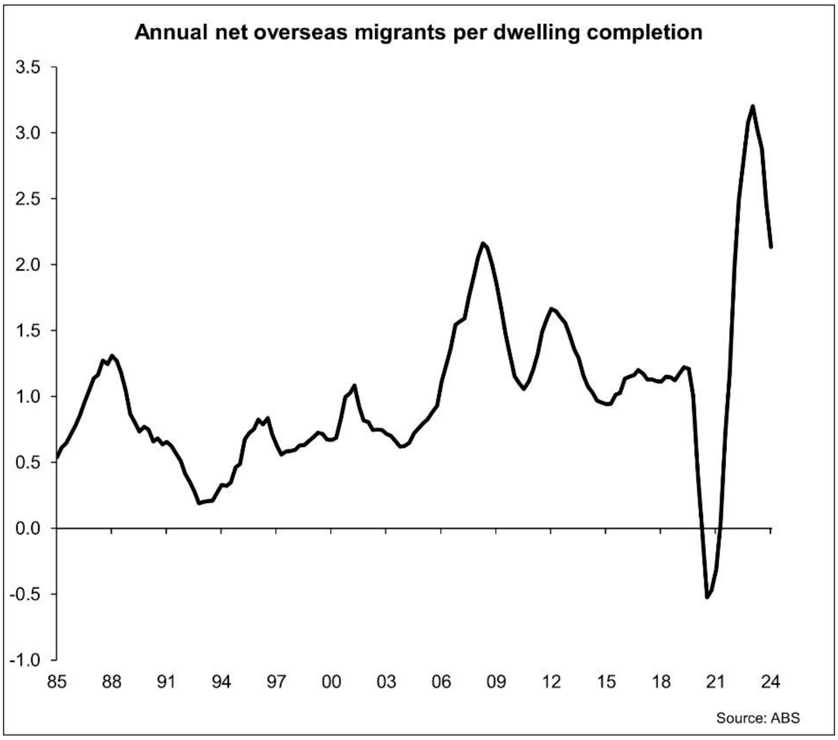
Population growth, inelastic housing supply and rents

Housing supply is inelastic, meaning that significant changes in the rate of population growth such as those seen over recent years don't necessarily result in a supply response.



Over the 12 months to December 2024 there were 168,049 dwelling commencements. This was +1.8% compared to the 12 months to December 2023 but -28.3% compared to the historic high and well below the volume of commencements seen during the mid to late 2010s.

Similarly, the 177,313 dwelling completions nationally over the 12 months to December 2024 was +1.1% compared to the previous 12 months but -20.7% from the peak and, again, well below completion volumes achieved from the mid to late 2010s.

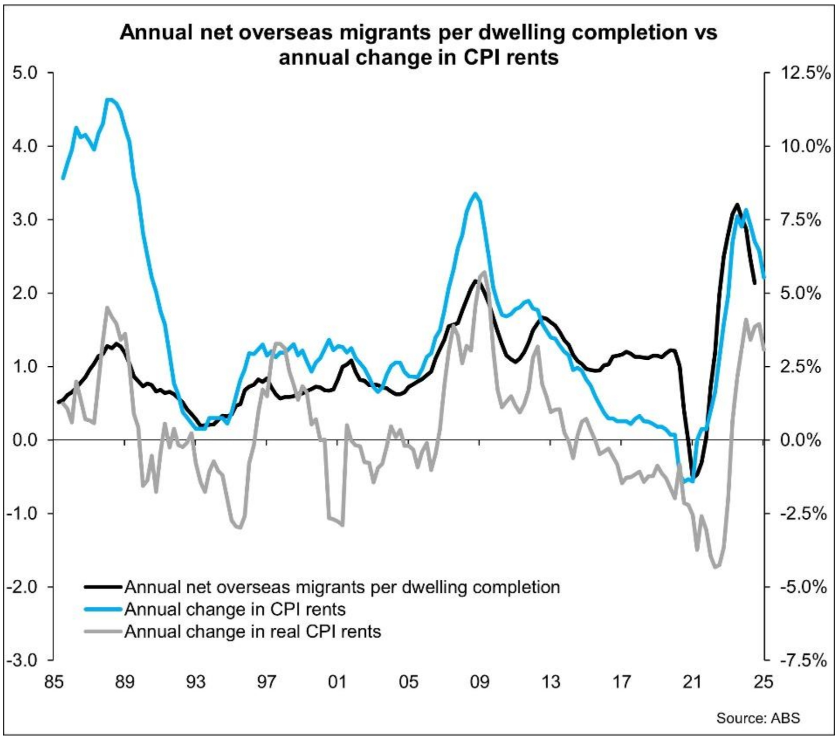


Since the reopening of the international borders we have not been building anywhere near enough new homes.

From September 1995 to September 2024, Australia has on average completed one additional property for every one net overseas migrant. Over the 12 months to September 2024, we've bult one new property for every 2.1 net overseas migrants, and that was as high as one home for every 3.2 overseas migrants in September 2023.

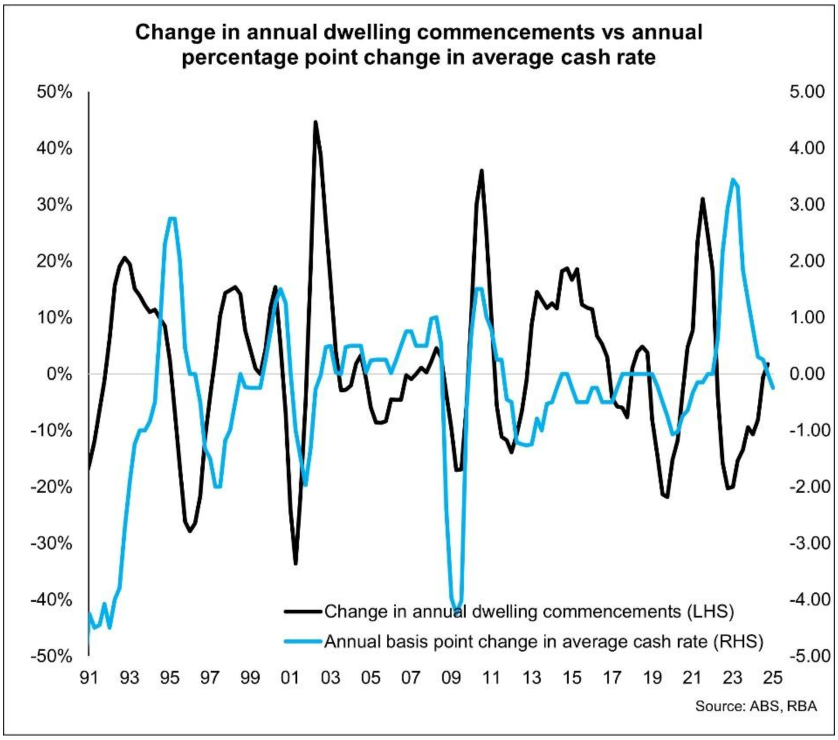
Firstlinks
a Morningstar company

Except for a period in 2015 and when our international borders were closed, we have not built at a rate of one additional property for every additional net overseas since around 2007. We went quite close in the period from 2014 to 2019, a time that coincided with relatively moderate increases in rental costs (see chart below).

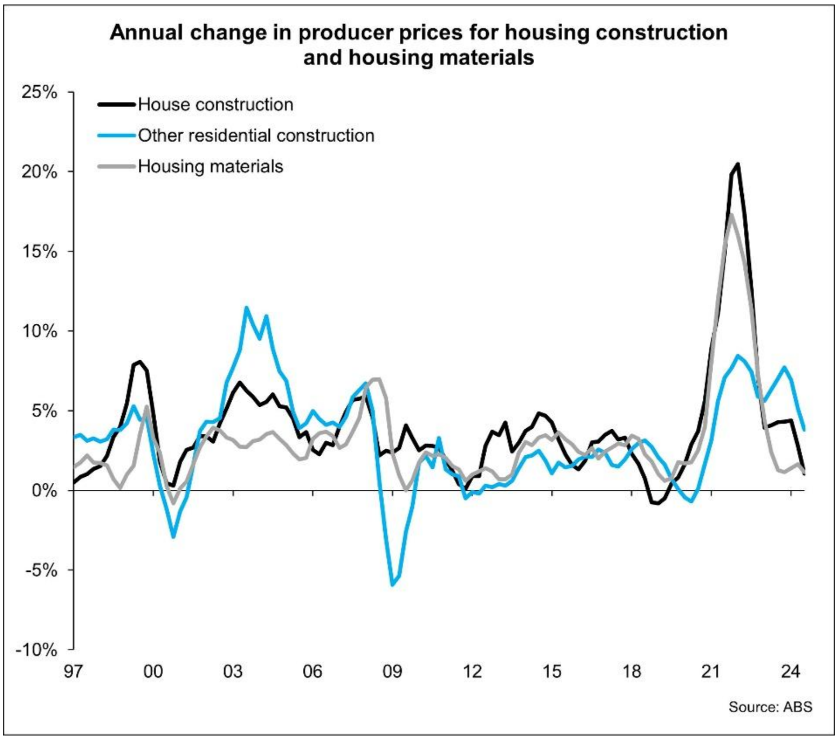


Fast forward to the last few years, and population growth and migration levels surged to record-highs. But because of the inelastic nature of the supply response, we have not built anywhere near enough new homes to cater to it. This has pushed the cost of renting significantly higher, both in nominal and inflation-adjusted terms.

There are several reasons why supply hasn't been able to respond. One of which has been the fact that interest rates were increased rapidly and ended up at their highest level in 12 years.



The above chart shows that dwelling commencements are highly sensitive to interest rates. In periods when interest rates have risen or fallen rapidly, there has historically been a fairly rapid response in the number of commencements. If we again look at the period from 2014 to 2019 when we were building a lot of new dwellings, interest rates were low, fairly stable and only reduced over that period. This made new housing construction much more feasible.



What is encouraging going forward is that the interest rate cycle looks to have peaked. As interest rates fall, more new housing projects should become feasible. The early recovery in housing construction we're seeing should continue and could even accelerate.

Another major contributor to the lack of housing supply response over recent years has been the rapid increase in the cost of housing construction. Producer Price Index data shows that the escalation in producer costs relating to construction have slowed however, they have risen substantially throughout the pandemic.

While housing construction costs are just 1.1% higher over the 12 months to March 2025, they were 41.6% higher over a five year period. Other residential construction costs are +3.8% over the past year and +28% over the past five years, while housing material costs are +1.1% over the past year and +34.9% over the past five years.

These significant increases in construction costs have made the premium for new housing significant compared to existing homes prices. They have also made much less new housing construction viable. By comparison, in the 2010s these costs were rising at a much more moderate and stable rate each year.

The recent moderation in these construction cost increases is positive for new supply. Yet in cities like Sydney and Melbourne, where housing is most needed and population growth is strongest, established price rises have been fairly moderate. As the gap between new and existing house prices is still quite wide, presales remain a challenge.

We need a population plan that is linked to housing

The inelastic nature of housing supply is the crux of the issue. We should have a population policy and why it should be linked to our ability to deliver both the housing to cater to that population growth the infrastructure required to cater to that population growth and the job opportunities to cater to that population growth.

If we want to have a high rate of population growth and migration, I believe we need to answer a lot more questions than we currently do and form a plan to link this growth to housing, infrastructure and employment policy. Some of these specific questions include but aren't limited to:

- How many homes do we need for these migrants, who is going to build these homes and where are they going to be located?
- Is it sustainable for most migrants into the country to continue to settle in Sydney and Melbourne?
- If universities are reliant on overseas students for their funding, is this the right model and why don't they use their land to build a lot more housing for these students?

- What infrastructure do we need to cater to this population growth, which is the top priority infrastructure and who is going to build it?
- What jobs are these migrants going to do?
- What is the impact of the increase in population on the current population of the country and how can we ensure their quality of life is not reduced from the migration occurring?

I know this is a very sensitive topic. I am married to a migrant and my father's parents were both migrants. I wouldn't be here and I wouldn't have my family without migration, and Australia has been built on the back of it.

But as we are under investing in housing and infrastructure while running world-leading rates of population growth, I think it is reasonable to ask why we don't have population plans linked to the delivery of housing, infrastructure and employment opportunities.

Cameron Kusher is Director at Kusher Consulting. He has more than 20 years' experience in the Australian property sector and regular shares his views on Oz Property Insights, from which this article has been republished, with permission.

Compare the pair: Expensive versus cheap

Rudi Filapek-Vandyck

Ever walked into your local supermarket to find heavily discounted strawberries on prominent display while farther down the aisle you pay double the price for a similar looking bucket?

If you do fall for the extra-advantageous offering, you'll find there's not much healthy life left in those cheaply priced berries. You had better start eating them now!

On more than just a few occasions, the offerings put forward by the share market are made up of similar underlying characteristics, which is why buying the 'cheaper' option available is not always the best decision for an investor to make.

Recently my mind wandered off to private hospital operator Healthscope, whose valuation discount between 2014 (ASX re-listing) and 2019 (acquisition by private equity) vis a vis the much larger Ramsay Health Care [RHC] was often touted as a signal that investors had been under-appreciating Healthscope's true potential.

Since then, Ramsay Health Care has had its own struggles and today's share price is reflective of that reality. But fully privatised Healthscope might be on the verge of collapsing under $1.6 billion in debt, leaving its ASX-listed landlord unable to collect current and outstanding rent payments.

I cannot help but think that the relative valuation discount would have only grown larger had Healthscope remained a publicly listed company.

A similar observation can be made regarding Ainsworth Game Technology [AGI] which since 2002 has presented itself as the cheaper-priced alternative for multinational Aristocrat Leisure [ALL] but seldom has this resulted in higher investment rewards for those taking the leap.

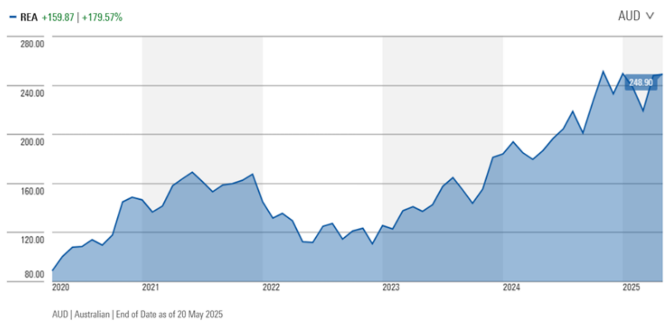
Source: Morningstar. As of 20 May 2025.

It certainly never resulted in sustainably higher rewards as that share price has effectively known one direction only --southwards-- since 2013. Similar as with Healthscope six years ago, Ainsworth Game Technology is likely to be privatised and delisted later this year, as suitor/majority shareholder Novomatic has finally bitten the bullet.

US-headquartered Light & Wonder [LNW] also trades on lower multiples than Aristocrat, while offering higher growth potential given a smaller size and post corporate re-invention, but reality on the share market has proved noticeably more challenging. Post sell-off, the shares are still up some 30% since early 2023 but shares in Aristocrat have doubled.

For good measure: Aristocrat has taken its smaller challenger to court, and won, which explains part of the discrepancy, but recent results also revealed there's no escaping general industry challenges and investors are prepared to put more faith in Aristocrat's decade-long track record that has made it one of the local success stories from the past ten years and beyond.

Staying with the pending de-listing theme, it looks like Domain Holdings Australia [DHG] too might soon change ownership and be de-listed from the ASX. Domain shares have consistently traded at a relative discount to industry leader REA Group [REA], reason enough for many to recommend its shares against a much more 'expensively' priced local market leader.



Source: Morningstar. As of 20 May 2025.

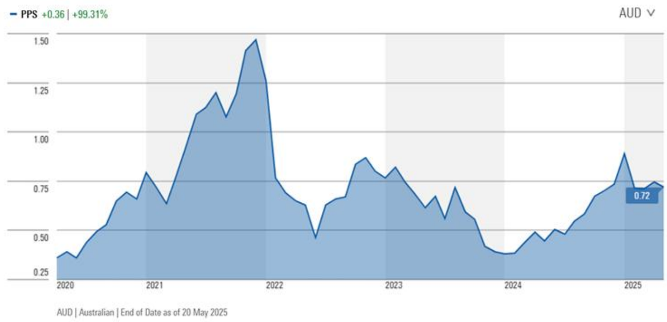
The reality? With a total return of circa 44% over the past seven years, Domain shares have not been able to keep up with the broader market (including dividends) while REA Group shares delivered home run after home run, rewarding loyal shareholders to the tune of 155% versus circa 85% for the ASX200 Accumulation index.

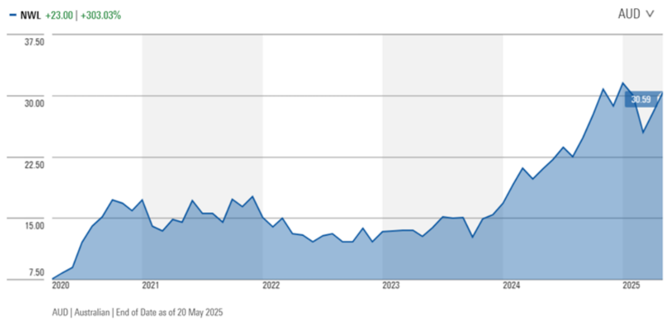
In similar vein, shares in the cheaper-priced Atlas Arteria [ALX] have returned about half as much as the much larger, more solid offering put forward by Transurban [TCL] over the decade past. Atlas Arteria is rumoured to have full take-over interest from IFM Investors which already owns 28% of its equity.

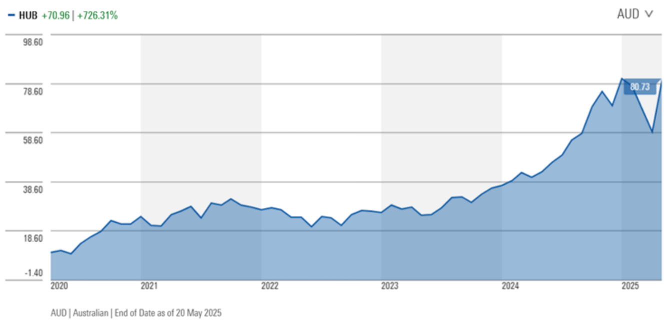
Source: Morningstar. As of 20 May 2025.

Constant take-over speculation equally surrounds investment platform operator Praemium [PPS], whose valuation -- you probably guessed it already-- forever shines brightly against the elevated multiples rewarded to much larger industry challengers Netwealth Group [NWL] and Hub24 [HUB].

Yet again, outside of brief periods when shares in Praemium out-rally their more 'expensive' peers, investors have done themselves no favours by switching out of Netwealth or Hub24 shares in favour of the industry laggard. Returns from both Netwealth and Hub24 shares have been nothing short of spectacular since 2020 and both are setting new all-time record highs in 2025.

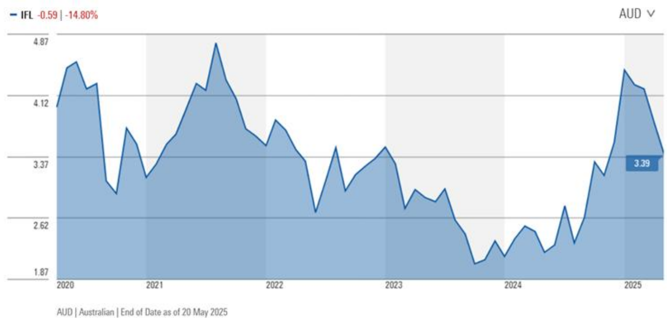


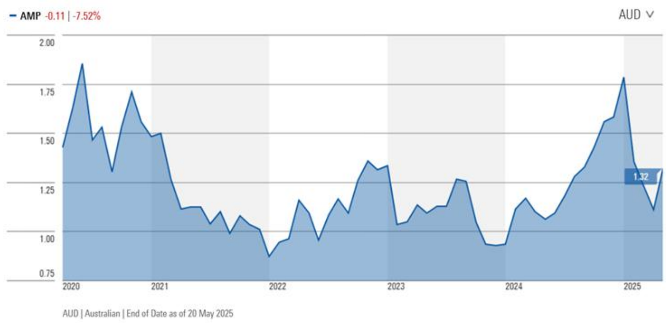




Source: Morningstar. As of 20 May 2025.

If we broaden the focus, we might equally include Insignia Financial [IFL] and AMP Ltd [AMP]. While not as single-focused as Netwealth and Hub24, both companies compete in the financial platforms sector with valuations that rank equally well below those of the two successful challengers.

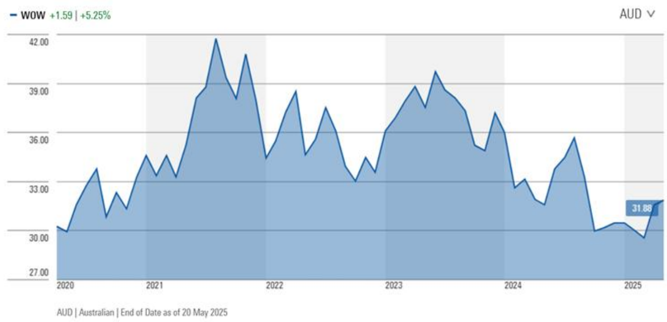


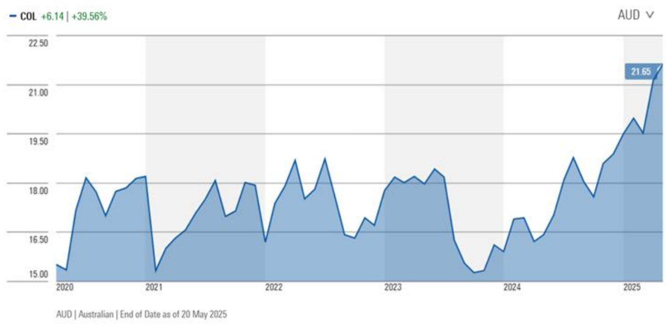


Source: Morningstar. As of 20 May 2025.

You already know the outcome from any comparison of returns. Insignia shareholders might be keeping their fingers crossed for a positive outcome in take-over talks between the board and suitor CC Capital.

In case anyone wonders, buying the most 'expensive' stock in a given sector is not always a successful strategy. It hasn't worked for supermarket operators where the most expensively priced market leader, Woolworths Group [WOW], has underperformed its smaller and cheaper-priced competitors Coles Group [COL] and Metcash [MTS].





Source: Morningstar. As of 20 May 2025.

In particular for Coles, the outperformance has coincided with a narrowing of the relative valuation gap since Woolworths lost its prior mojo. Equally telling: Endeavour Group [EDV] is also facing serious operational challenges since demerging from Woolworths in mid-2021.

Similar as for the two platform challengers, any differences between ResMed [RMD] and Fisher & Paykel Healthcare [FPH] seem rather subjective. Both companies only compete in certain market segments, so are not 100% comparable, but both have significantly outperformed the broader market and much smaller competitors vying for their own share of sleep and breathing solutions.

Source: Morningstar. As of 20 May 2025.

Both ResMed and Fisher & Paykel Healthcare, similar to Netwealth, Hub24 and most market leaders mentioned earlier, are also consistently trading on above-market average multiples/valuations.

Despite trading on richer valuations, in particular vis a vis direct competitors, it seems to me the list of richer-valued companies that outperform their 'cheaper' priced competitors over prolonged periods of time is much longer than the opposite.

Think also Sonic Healthcare [SHL] versus Healius [HLS] in pathology services, and Treasury Wine Estates [TWE] versus Australian Vintage [AVG] in wine, Medibank Private [MPL] versus nib Holdings [NHF] in private healthcare, Xero [XRO] versus Reckon [RKN] in accountancy software, and versus MYOB pre-delisting, and TechnologyOne [TNE] versus Objective Corp [OCL] in Enterprise Resource software.

This exercise is by no means advocating investors should no longer care about valuations, or forget about buying shares as cheaply as possible, as the share market will still push valuations too high and too low under opposing circumstances, but at the very least there should be questions asked as to why certain companies are more highly valued than others, rather than automatically choosing the more 'attractive' looking option.

To extra-illustrate that point, I have kept the most controversial sector for last: Australian banks.

Some sector analysts have started to anticipate cuts in dividends across the sector, as headwinds will only keep building. Guess which bank is not expected to reduce its payout to shareholders?

It's the local market leader whose valuation and investment return has dwarfed the rest of the sector since the GFC, now 16 years ago.

Rudi Filapek-Vandyck is Editor at the FNArena newsletter, see www.fnarena.com. This article has been prepared for educational purposes and is not meant to be a substitute for tailored financial advice.

Maintaining dividend income in turbulent times

Dr Peter Gardner

If ever a time proves the tried and trusted 'set-and-forget' approach to equity income doesn't work, it's now. Amid all the noise about Trump, tariffs and market turbulence, the big challenge for income investors in Australia is knowing where to move to get dividends and franking credits.

While a lot has changed in just a few months, let's first look at some of the signals from the recent ASX companies reporting period in February 2025.

Dividend income foundations

The average dividend increase across the ASX during the February reporting period was 20%, according to internal Plato research.

Of course, averages can be skewed. For example, South32 Limited (ASX:S32) had an 800% increase in dividends. However the median dividend increase for all companies was around 5%. That means that, on average, a typical company has increased dividends greater than the rate of inflation.

While there's a lot of uncertainty in global markets, dividends declared in the February reporting season provide a solid foundation for the outlook for dividend income during the rest of 2025.

For us, dividend highlights in February included Qantas Airways (ASX:QAN) re-instating dividends, and A2 Milk Company (ASX:A2M) paying a dividend for the first time.

On the flip-side, BHP Group (ASX:BHP), Rio Tinto (ASX:RIO), and Fortescue (ASX:FMG) cut their dividends. These cuts, however, came off the back of enormous dividends and special dividends delivered by the mining giants in recent years. The dividend bonanza from the miners lasted much longer than many experts anticipated.

Resource dividends have now cooled in line with the declining price of iron ore. However, the mining giants should remain high-yielding stocks:

- BHP announced a 50 cent (USD) dividend, which equates to a 6.7% annual yield.
- Rio Tinto announced a $3.55 (AUD) dividend, which equates to a 7.4% annual yield.
- Fortescue announced a 50 cent (AUD) dividend, which equates to a 10.2% annual yield.

[*Note: Yields move around as share prices change, meaning the yield information above may not be current at time of publication.*]

The biggest dividend cut came from Fortescue, because it's a pure-play iron ore miner.

It's now a game of wait and see with regards to how China reacts to the trade war with the US. There is a possibility that China may choose to unleash large-scale stimulus, which could potentially support iron ore prices.

Given the uncertainty though, we remain positive on the more diversified Rio Tinto and BHP for dividend income moving forward.

Dodging the tariffs

Despite a lot of hyperbole about economic uncertainty, the Aussie consumer is still showing confidence.

Six months ago, spending was going backwards amongst younger people, but that's now turned positive, albeit greater spending power remains in the older age cohorts that own their own home.

Against this backdrop of global tariff turbulence, some of the key sectors that we remain positive on for the potential of delivering dividend income are domestic telcos, consumer staples, and financials.

For example, Telstra Group (ASX:TLS) reported a strong half-year profit increase of 7.1% (vs the prior corresponding period) in February. This was driven by increasing mobile revenues as Telstra continues to strengthen its dominance as Australia's leading telco. Investors were rewarded with a 5% interim dividend increase, and they're now getting an annual gross yield of around 6.5%.

In the consumer staples sector, our view is that the Coles Group (ASX:COL) may continue its dominance over rival Woolworths (ASX:WOW) in the foreseeable future and we are likely to remain positive on Coles' dividend outlook.

JB Hi-Fi (ASX:JBH) is also interestingly positioned. We consider JBH a bit more of a consumer staple these days, as people can't just cut back on things like home office electronics and mobile devices which have become a critical part of our personal and working lives.

JBH was able to increase half-year sales by almost 10%, increase profits by 8%, and noted strong January sales in its February results. It announced an 8% dividend increase.

Opportunities

Looking more broadly, the market sell-off in early April could potentially present opportunities to buy quality dividend-paying companies at attractive valuation multiples and yields, compared to earlier in the year.

We had become somewhat concerned that valuations of some Australian stocks had got ahead of fundamentals, such as company earnings or dividends (that is, valuations had risen too far). The silver lining for income investors is that dividend yields go up when share prices fall.

Risks to dividend outlook

Globally, a potential US recession driven by rising tariffs remains a key risk. US GDP forecasts have been downgraded, while inflation expectations have increased - factors that could prompt the US Federal Reserve to delay interest rate cuts despite signs of economic slowdown. The uncertainty surrounding tariffs may also lead businesses to postpone investment decisions as they await greater clarity.

A downturn in the world's largest economy could impact our local market, particularly if consumer and business confidence take a hit. However, the risk of higher inflation in Australia remains low.

It's unlikely that Australia will impose tariffs on imports, and US tariffs could even make our economy a more attractive destination for goods, particularly from China, potentially driving prices down. In such a scenario, the Reserve Bank may feel more comfortable easing interest rates, helping to counterbalance any negative sentiment.

Plato is also monitoring the risk of a slowdown in China and the potential for limited government stimulus. ASX-listed companies with significant exposure to the Chinese economy - particularly major iron ore miners like BHP, Rio Tinto, and Fortescue - should be watched closely if China's economy slows.

Bottom line on dividends in 2025

There are parts of Australia's domestic economy that look more shielded from the tariff turbulence. Indeed, the volatility may provide opportunities for investors to build exposure to solid dividend payers at more reasonable prices.

The Australian equities market currently looks like it is still a good place to be. Keep in mind:

- Australian direct exports to the US are relatively small, and we have a tariffs at 10%.
- Countries most affected by the tariffs may look to export more goods to Australia at potentially cheaper prices, which could soften inflation.

- The potential policy response will be more interest rates cuts than had been expected – we now have economists predicting 1-2 more cuts this year. If interest rates are further cut, this could help families struggling with high mortgage rates and result in improved spending across the board.

There is much to be optimistic about in our domestic market. Equities still have the potential to generate superior income when compared to term deposits and fixed income.

Dr Peter Gardner is a Senior Portfolio Manager and co-founder of [Plato Investment Management] (AFSL 504616 ABN 77 120 730 136). Plato is an affiliate of [Pinnacle Investment Management], a sponsor of Firstlinks. This article is for general information only. Any opinions or forecasts reflect the judgment and assumptions of Plato on the basis of information at the date of publication and may later change without notice. Any projections are estimates only and may not be realised in the future. This article is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment. We would suggest individual investors seek professional tax advice based on their individual tax circumstances.

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The US is no longer a model for democracy

John West

In my capacity as a globetrotting Asianist, I frequently encounter people from the United States who want to brag about democracy. They are often surprised to discover how healthy it is in many Asian countries.

The United States as the world's longest standing democracy stands in contrast with its great geopolitical rival, China, one of the world's most authoritarian political regimes. The US Constitution came into effect in 1789, and famously begins with "We the people..." affirming that a Government must serve its citizens.

What's more, US law declares the promotion and protection of democracy, human rights and fundamental freedoms to be "principal" and "fundamental" goals of US foreign policy.

But over the years, politics has evolved across both sides of the Pacific Ocean. By the measure of democracy set by the Economist Intelligence Unit (EIU) the United States now falls short.

The EIU considers it a 'flawed democracy' and ranks it 29th out of the 167 jurisdictions surveyed. The demotion from 'full democracy' to a 'flawed democracy' came in 2016, the year Donald Trump was elected to his first term as president.

The EIU assesses democracy worldwide based on five criteria: electoral process and pluralism, functioning of government, political participation, political culture and civil liberties. In other words, there is a lot more to democracy than simply having elections.

Measuring democracy by world standards

In this context, the United States scores poorly for its political culture. "The U.S. score is weighed down by intense political and cultural polarisation," its report noted. "Social cohesion and consensus have collapsed in recent years as disagreements over an expanding list of issues have fuelled the country's 'culture wars'."

Fault lines have deepened in particular over LGBTQ+ rights, climate policy and reproductive health.

Polarisation has long compromised the functioning of Government in the United States and the country's score for this category is also particularly low.

"Pluralism and competing alternatives are essential for a functioning democracy, but differences of opinion in the U.S. have hardened into political sectarianism and almost permanent institutional gridlock," the EIU reported.

Freedom House, a think tank which analyses freedom across the world, has also observed that democratic institutions in the United States have eroded. It cites: "Rising political polarisation and extremism, partisan pressure on the electoral process, mistreatment and dysfunction in the criminal justice and immigration systems and growing disparities in wealth, economic opportunity and political influence."

Democracy in Asia and the Pacific

Across the Pacific, we find five 'full democracies': Australia, Japan, South Korea, New Zealand and Taiwan, although the EIU's report preceded the current political turmoil in South Korea. The region also has 10 'flawed democracies,' including Malaysia, India, The Philippines and Indonesia.

Singapore, a country which is often criticised for its soft authoritarian political system, is also assessed to be a flawed democracy. But there can be little doubt about the Government's effectiveness in delivering services to its citizens. Singapore's technocratic and managerial style governance have generated one of the world's most prosperous and efficient economies.

Its GDP per capita, which is a way of measuring the economic wellbeing of a country, is $148,000 — among the very highest in the world, and ahead of the United States, Germany or Japan.

When it comes to economic freedom, Singapore leads the world according to the Heritage Foundation, while the United States ranks a mere 25th out of the 176 jurisdictions surveyed. Other Asia-Pacific economies which rank well are Taiwan (4th) New Zealand (6th), Australia (13th) and South Korea (14th).

Human capital has long been a key ingredient in Singapore's economic success story. Singapore's students topped the OECD's 2022 Programme for Student Assessment which assessed the capabilities for 15-year-old students from 81 countries and economies for reading, science and maths. Indeed, Japan and South Korea are also ranked in the top 10 countries. The United States was ranked 34th with a similar score to Vietnam.

Education is key to democracy

When it comes to universities, the United States is still the world leader, with the Massachusetts Institute of Technology, Harvard University, Princeton University, Stanford University, the California Institute of Technology, the University of California, Berkeley and Yale University all being ranked in the top 10 by Times Higher Education.

But Asian universities are now climbing the ladder, with China's Tsinghua University now number 12, Peking University 13th, National University of Singapore 17th, the University of Tokyo 28th and Nanyang Technological University Singapore 30th.

Asian citizens also enjoy much higher life expectancies than U.S. citizens or those of most other developed countries. Hong Kong tops the list of the world's highest life expectancy at 86 years, with Japan, South Korea, Australia and Singapore all being in the top 10.

In comparison, the United States ranks just 48th in the world; Americans live on average some six years less than Hong Kongers.

And while Singapore and many other Asian countries are notorious for restrictions on personal freedoms, the trade-off is a safe society and an efficient economy. For example, Singapore is estimated by research group Numbeo to have a much better crime index and safety scale than the United States or France.

No monopoly on democratic values

My American friends seem insistent that their open and free-wheeling society represents a unique source of creativity and innovation.

There is no doubt some truth in this perception — U.S. companies dominate Forbes list of the world's most innovative companies. At the same time, companies from India, South Korea, Indonesia, Thailand, China and Japan are now climbing up the Forbes list.

And while Switzerland, Sweden and the United States might top the Global Innovation Index, Singapore, South Korea, China and Japan are not far behind.

Comparing the quality of democracy and governance is a complex exercise, something that a short article like this cannot sufficiently tackle.

But it is clear, based on a number of factors, that many Asian countries are doing quite well in developing systems of democracy and governance. The United States faces many deep challenges in contrast and could draw lessons from its Asian friends across the ocean.

John West is Executive Director of the Asian Century Institute and author of the book, "Asian Century ... on a Knife-edge". He has had a long career in international economics and relations, with major stints at the Australian Treasury, OECD, Asian Development Bank Institute, and Tokyo's Sophia University.

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Corporate bond opportunities in today's market

Jenna Hayes

There's no doubt we are living in uncertain times. And it's not just the impact of Trump's tariffs and the disintegration of world trade agreements on markets and economies. We are also witnessing ongoing military conflict, the dismantling of NATO, and an acceleration of AI adoption that we are yet to understand the full consequences of. Any one of these events would have a massive impact on global markets and economies, but to be experiencing them all at once is disconcerting for even the most rational investor.

As equity markets fall, there is often a rush to sell and to move to perceived safer investments such as bonds, cash and gold. But a diversified portfolio should always have a varied asset allocation strategy that allows for investments in fixed interest and different kinds of credit arrangements.

Although there are plenty of fixed income managed funds available to retail investors - across all kinds of credit, including the private credit subsector - we are seeing particular opportunity in direct issuances of institutional-grade corporate loans and bonds.

We recognise that this is not possible for many retail investors due to the size of minimum investment. But when it is, it is arguably one of the better options for credit investors – including as an alternative to Tier 1 bank capital that is due to be phased out by the regulator by 2032.

The benefits of direct investments

There are several benefits to holding corporate credit issuances directly instead of through a managed fund or an exchange traded fund that holds many securities. The most obvious one is that, as the ultimate end investor, you get to control when you buy and sell the asset.

This is especially important in times of market turbulence. Market prices may fluctuate along the way, but if you hold an institutional-grade corporate bond or loan to maturity then you will nearly always get your money back plus the coupon payments you receive.

If you are in a managed fund, you are at the mercy of the fund manager and what they decide to do with the investment. And if many investors choose to sell the fund, those further back in line can get stuck waiting for a liquidity window to sell - possibly at a different price.

If you are lucky enough to invest in an issuance with a coupon of 7.2% or more and hold it directly while reinvesting the coupon payments, you will double your money every 10 years. Here are a couple of recent examples.

Pacific National subordinated hydrid

This subordinated bond offers compelling value, trading at an attractive yield of around 8% that is underpinned by resilient fundamentals and a supportive shareholder base.

The recent hybrid issuance qualifies for 50% equity credit, improving credit metrics immediately. In addition, the Queensland cyclone's impact on operations was minimal and coal pricing appears to have bottomed with a solid demand outlook.

EBITDA is expected to grow 3-4% a year, aided by CPI-linked contracts, cost-out initiatives ($65 to $85 million), and asset sales ($150 million). We remain confident in the company's credit trajectory.

ClearView Wealth subordinated bond

ClearView have a subordinated bond with a floating rate coupon of +350 and a current coupon of 7.6%. This has upside as a potential takeover candidate.

ClearView started out as NRMA Life in 1976 but relaunched as ClearView in 2010 under the current ownership. The company is now a pure-play life insurer after divesting its wealth and advice businesses, cleaning up the story for potential acquirers.

The global life insurance market is highly consolidated, with only a few major international players that are actively seeking growth opportunities. Similar past takeovers, such as Dai-ichi Life's acquisition of Partners Life in 2022 or Dai-ichi/TAL's recent purchase of a 15.1% stake in Challenger highlight continued consolidation in the sector.

Attractive potential returns and easier access

Even if you were to spend the coupon payments instead of reinvesting them, an investment of $500,000 in an issue with a 5% yield and 10 years until maturity could see you collect $250,000 in coupon payments and the return of your original $500,000 at the end.

Investment managers that specialise in this asset class can provide wholesale investors with access to issuances from large ASX-listed names with good structures, on which banks have often already done due diligence.

Deals that have institutional support are also preferred because having sophisticated and large investors in the book build process increases our confidence that the offer is competitively priced.

Partnerships between providers and platforms like Netwealth and HUB can give advisers and their investor clients access to fixed income investment opportunities, including over-the-counter bonds.

Advisors using these platforms now have access to over 500 bonds in parcels of $50,000, making it an affordable option and one that provides valuable portfolio diversification. This is quite an easy way to access investment grade corporate bonds, and we have seen growing interest from financial advisers.

Jenna Hayes is Head of Sales and Executive Director, Capital Markets at Income Asset Management. This article is for general information only and does not consider the circumstances of any investor.