

Contents

- 13 ways to save money on your tax – legally *James Gruber*
- Taking from the young, giving to the old *Robert Breunig*
- An obsessive focus on costs may be costing investors *Macro Torque*
- Clearing up confusion on how franking credits work *Jon Kalkman*
- Are the good times about to end? *Tom Stevenson*
- Australia slips in global pension ranking *Tim Jenkins, David Knox*
- Where wine country meets real estate *Vanessa Rader*
-

Editorial

Being a teenager in the early 1990s, I remember watching the budget movie that became a cult classic, *Dazed and Confused*. It followed a bunch of teenagers on their last day of high school, and how they were uncertain about their own identities and about the world. There was a lot of partying, and pot. Several of the young actors went on to bigger things, including Matthew McConaughey.

I was reminded of the movie after reading a new study by Macquarie University on how Australians' views on housing influenced their voting patterns during the 2025 election. The study shows that almost everyone agrees that there is a housing crisis, yet no one can agree on the best ways to fix it.

Perhaps it shouldn't come as a surprise that we're so dazed and confused about the housing problem. After all, there's a lack of genuine leadership on the issue, and enough vested interests to block any progress towards a national housing consensus.

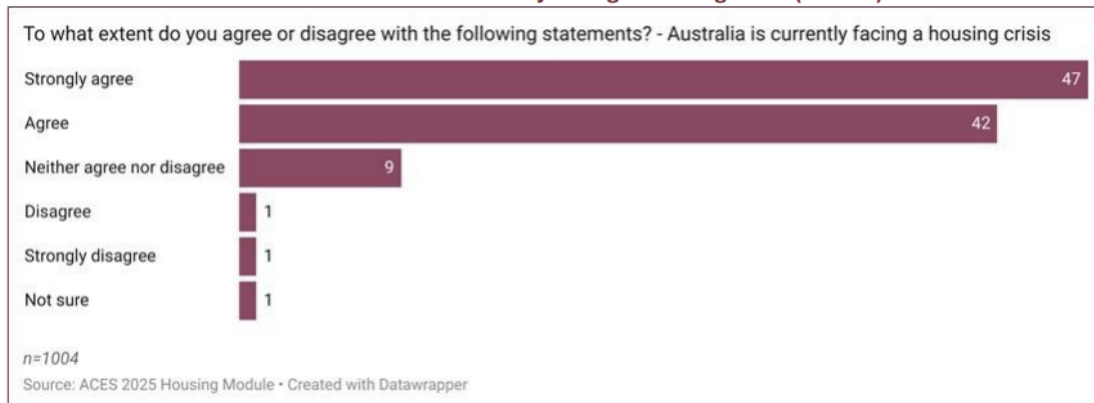
But let's dig into the study, which offers many fascinating findings.

Houston, we have a problem

The study is based on a survey of more than 1,000 voters and their attitudes to housing around the time of the 2025 election.

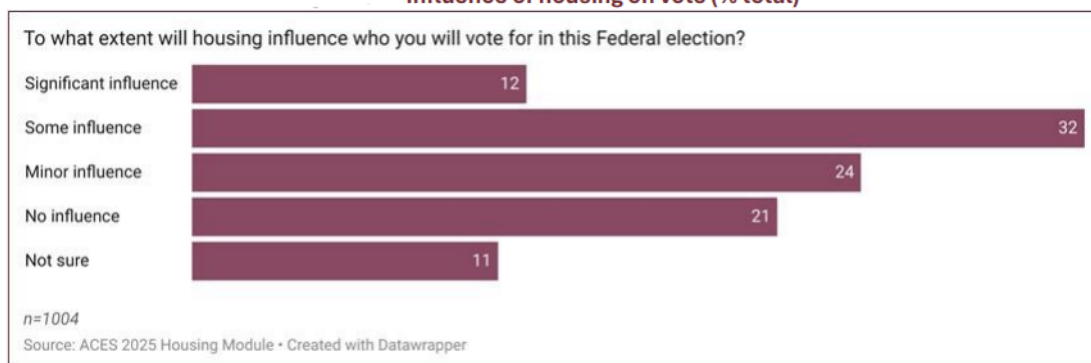
It found that there is almost universal agreement that Australia is facing a housing crisis. 89% of respondents agreed or strongly agreed that we currently have a crisis. That agreement went across all age groups, though it was strongest among renters and those under 35 years of age.

Australia is currently facing a housing crisis (% total)



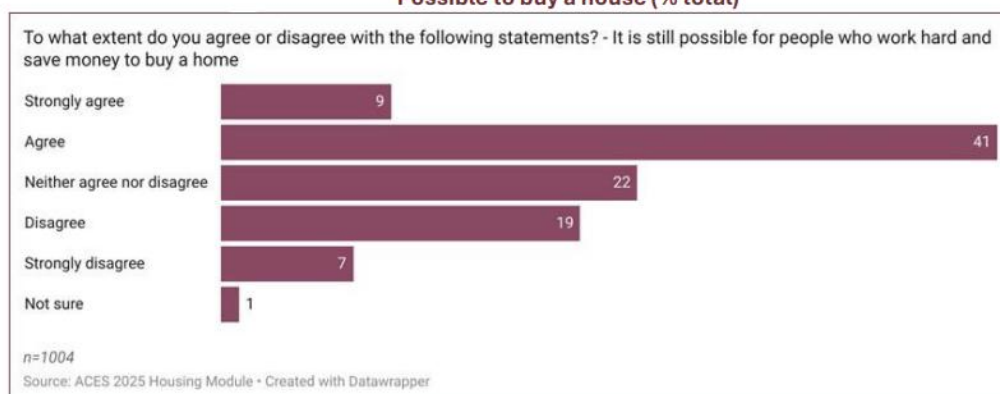
As to whether housing influenced their vote in the election, it was split between those who said it had some or a significant influence, and those who said it had a minor influence or no influence at all.

Influence of housing on vote (% total)



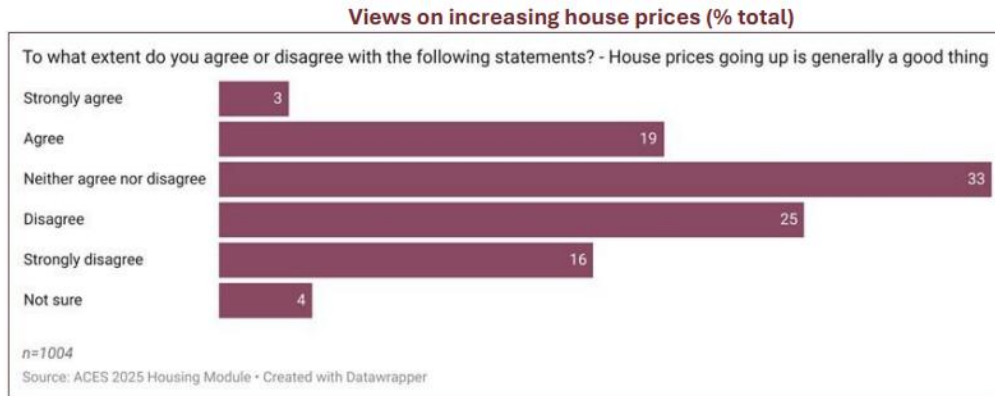
Interestingly, despite largely agreeing that there is a crisis, most respondents still believe that homeownership is possible if people worked hard and saved money. 50% of those surveyed agreed strongly with this notion and around a quarter disagreed. The support was strongest among those +65 years old, and Coalition voters; less so among the young and renters.

Possible to buy a house (% total)



For a long time, conventional wisdom has been that rising house prices are a good thing – a broad market of achievement in an aspirational society. Yet, the study shows attitudes are changing.

Only 22% of respondents viewed rising house prices positively, while 41% frowned upon it.



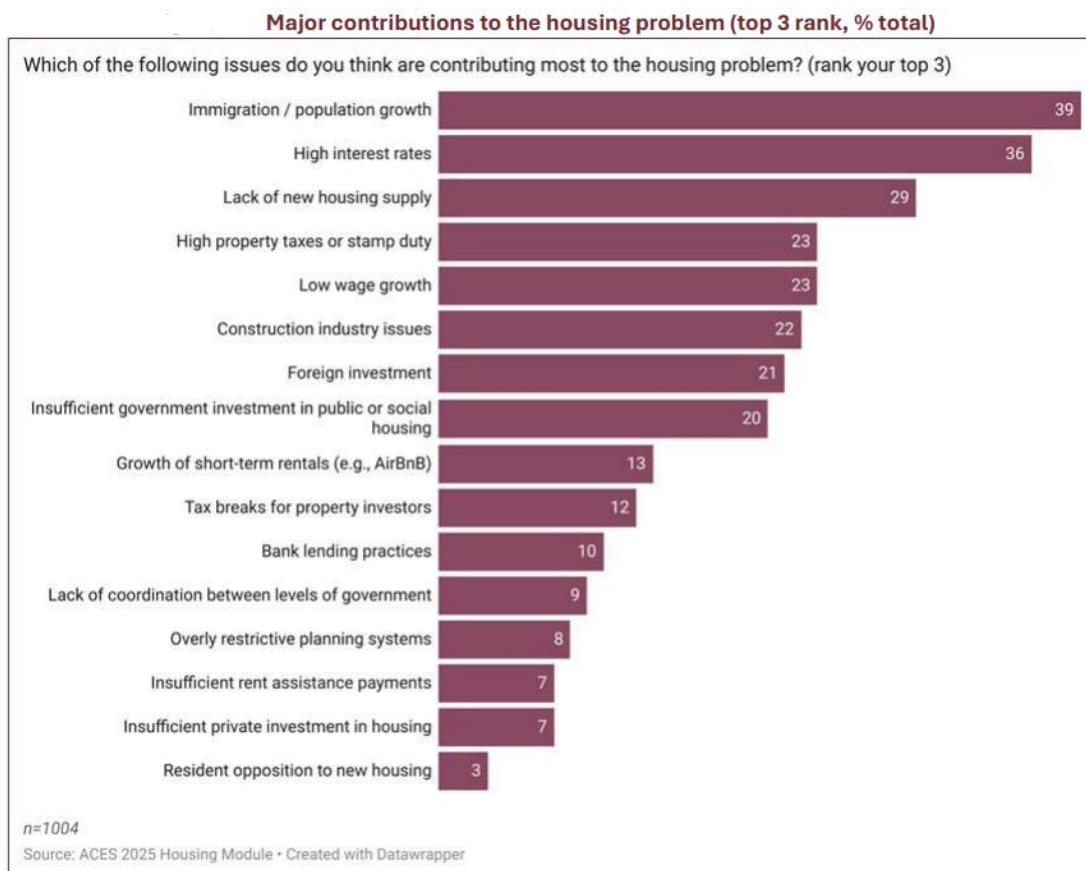
The study indicates that there's deep unease about high property prices, even among homeowners.

Causes for the crisis

So, what's behind the housing crisis?

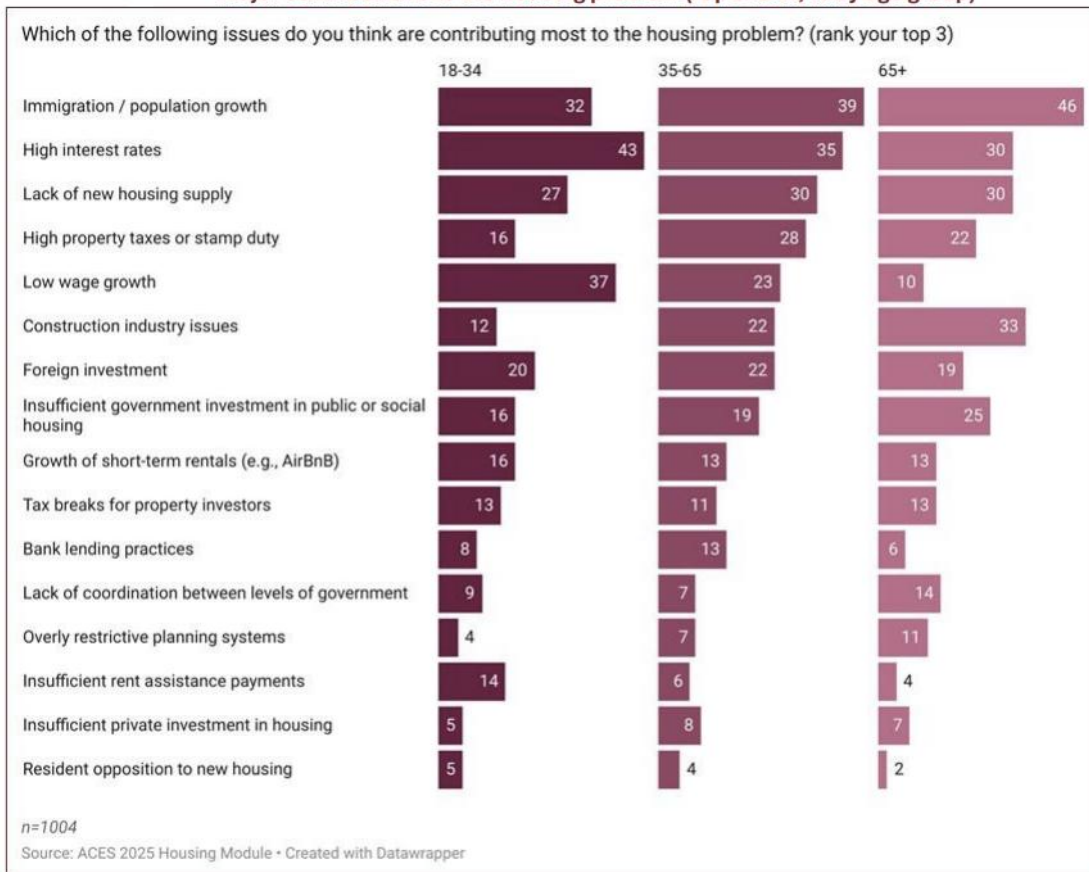
The survey participants were asked to rank their top three housing problems from a list of 16 options.

According to the respondents, the leading contributors to housing problems are immigration/population growth (39%), high interest rates (36%), lack of new housing supply (29%), and high property taxes or stamp duty (23%).

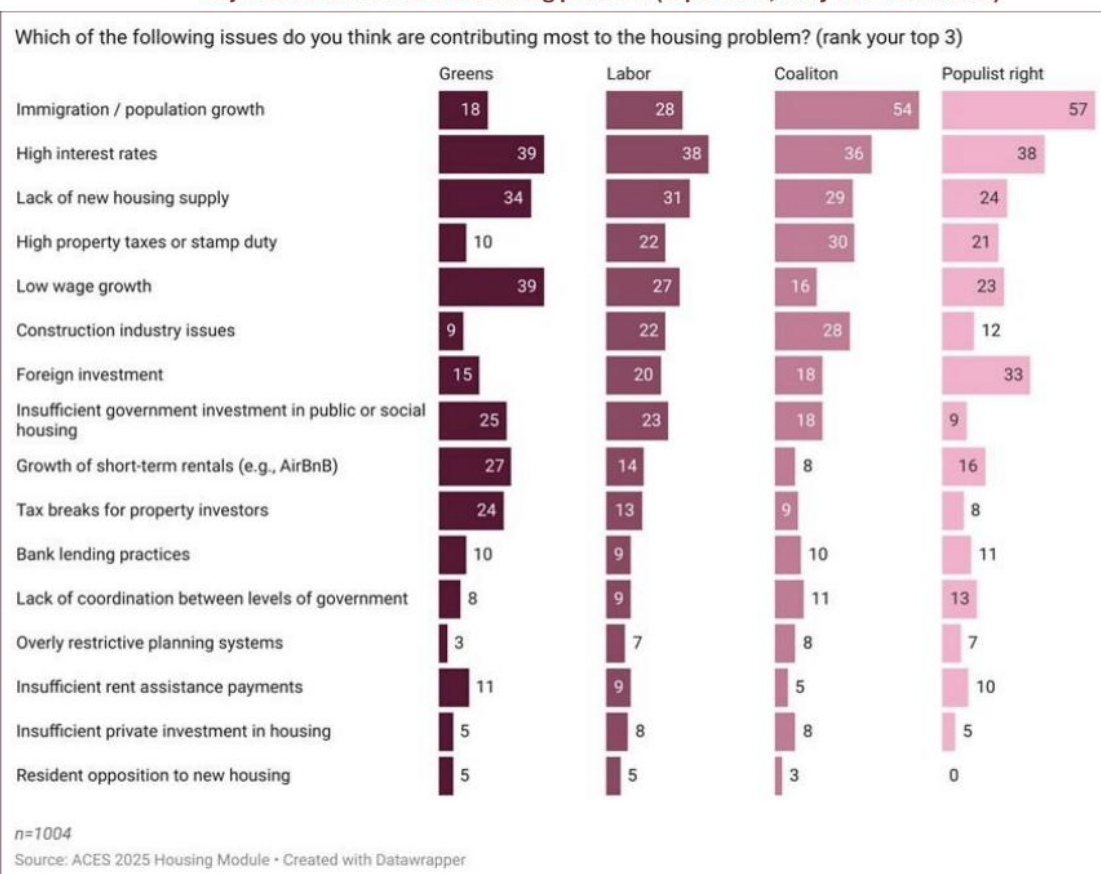


Yet answers were divided along generational and ideological lines. Younger Australians and progressives nominated high interest rates and low wage growth as key contributors to housing issues. Meanwhile, conservatives and populist right voters blamed immigration.

Major contributions to the housing problem (top 3 rank, % by age group)



Major contribution to the housing problem (top 3 rank, % by voter intention)



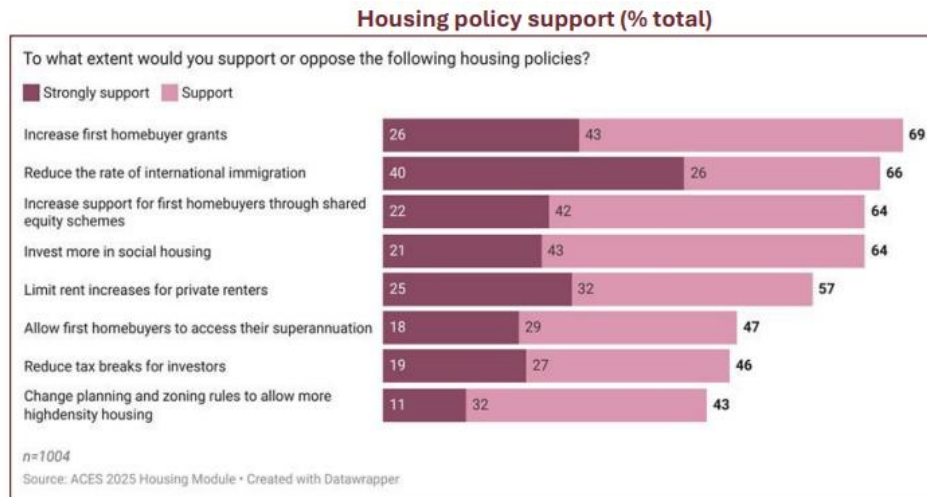
It's curious that high interest rates are so highly ranked as a cause of housing problems. Rates aren't high now – especially versus history. What it shows is that interest rates moving from near zero in early 2022 to a recent peak of 4.35% took a toll – not only for those who borrowed a lot to buy a house but also for those looking to break into the market.

The other curiosity is that planning restrictions aren't higher on the list. Perhaps it shows that while Labor thinks it should be *the* priority, voters aren't as convinced.

Solutions to the housing problem

The study shows Australians support the following housing policies most:

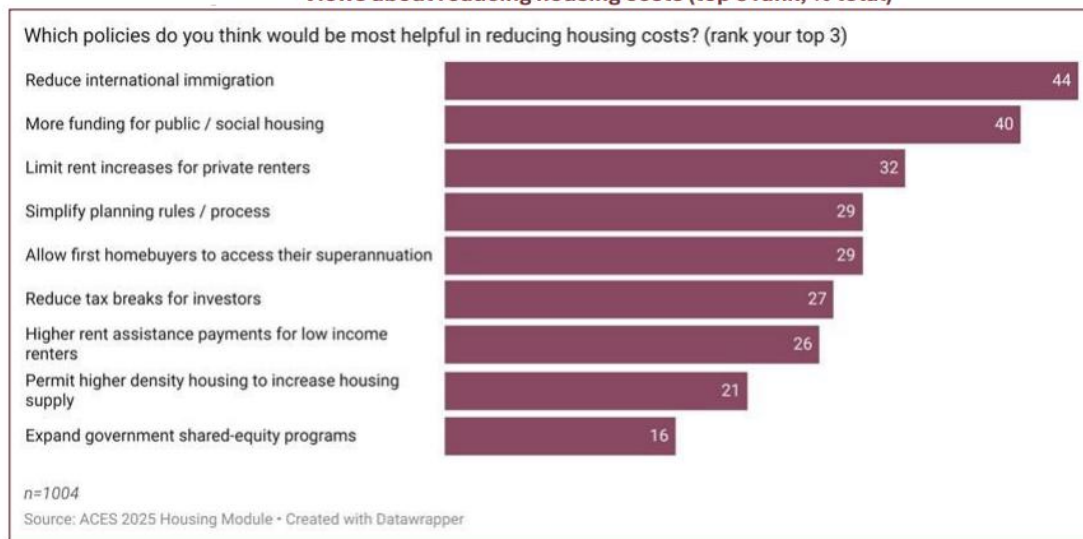
- Increasing first homebuyer grants.
- Cutting international immigration.
- More support for first homebuyers through shared equity schemes.



These favoured policies are odd. It should be obvious by now that homebuyer grants just push up demand and increase property prices. From a selfish viewpoint, it makes sense to want more grants, though it makes zero sense as a broader solution.

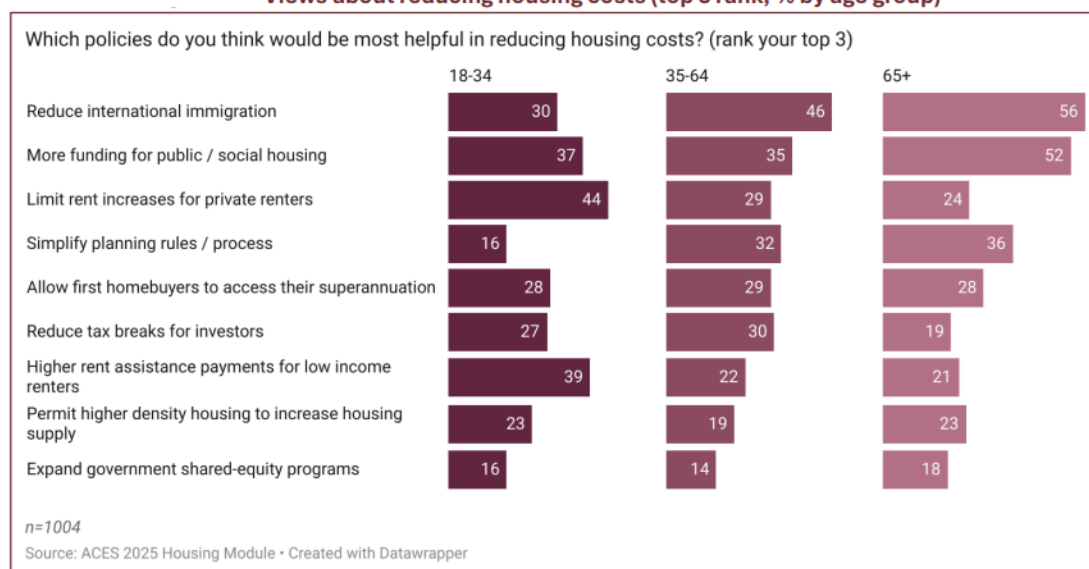
Asked about which policies would be most helpful in reducing house costs, the answers were different. Lower migration (44%), more funding for public/social housing (40%), and limiting rental increases (32%) topped the list.

Views about reducing housing costs (top 3 rank, % total)



The young favour limiting rental increases and increasing rent assistance payments for low income renters, while cutting migration and more funding for public housing are the top choices for those aged 35+.

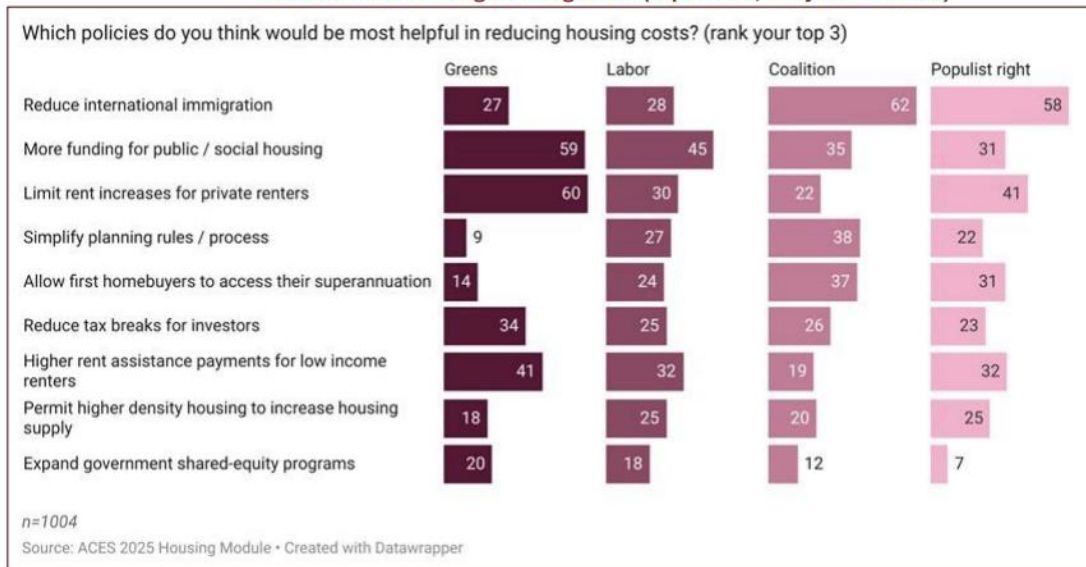
Views about reducing housing costs (top 3 rank, % by age group)



There's also an ideological divide among Australians on the best solutions to lower housing costs.

Left leaning voters think more public housing and rental concessions are the answer, while they're less of a priority for Coalition voters who want lower immigration and fewer planning barriers.

Views about reducing housing costs (top 3 rank, % by voter intent)



The biggest area of agreement across age groups and political affiliations is that we need more public housing.

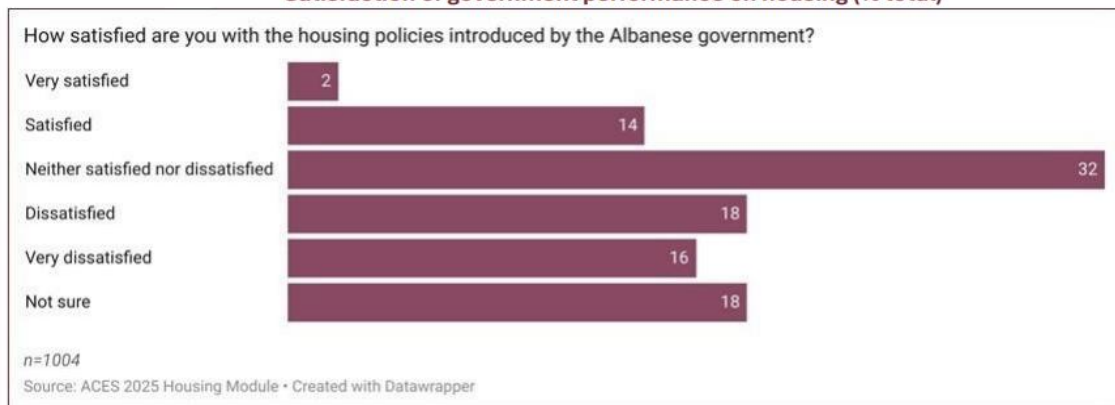
How Labor won over voters

Almost everyone thinks there's a housing crisis, and most aren't happy with Labor's policies to fix it. So, how did Labor score a landslide election victory?

The study says the Albanese government won because it put forward a platform that was modest and offended few:

"Labor may not have voters showering them with praise, but they have retained reasonable support across broad sections of society."

Satisfaction of government performance on housing (% total)



The Coalition got obliterated partly because its policy to allow first home buyers to tap their superannuation gained little traction. And their voter base is now skewed away from those experiencing a growing housing crisis.

Final thoughts

The study concludes that if home ownership rates continue to fall, housing may emerge as an even more important electoral issue, driving more radical demands for policy change.

It suggests voters are still forming their views on housing. Most are open to arguments about supply, although not especially enthused. Many people across the political spectrum want more help for those trying to buy a home, and younger voters are keen for more assistance for renters.

My take is that this survey highlights widespread confusion among voters about the causes of the housing crisis and potential solutions to fix it. A lack of leadership has led to this confusion and divisions among the electorate.

Genuine leadership requires a genuine conversation about the role we want housing to play in our society and economy. It requires gaining a broad consensus on the best ways to solve the problem. And most of all, it requires courage from politicians to think big and be unafraid to take on vested property interests.

Recently, I wrote about some [possible solutions to deal with the housing crisis](#).

In my article this week, I look at [13 legal ways to reduce your tax bill](#).

James Gruber

Also in this week's edition...

Australians are entering retirement wealthier than ever, but they're also receiving more government support than ever before. This raises serious questions about fairness and sustainability in [Australia's tax and welfare system](#), according to **Robert Breunig**.

Despite many articles in *Firstlinks* on franking credits over the years, the topic continues to divide and confuse people. **Jon Kalkman** is our resident expert on franking credits and here he [explains how they work](#), and how they impact both companies and shareholders.

Vanguard founder John Bogle taught investors that costs matter when building wealth - a lot. Yet, have we become too focused on costs, especially amid the relentless ETF fee war? **Macro Torque** thinks so, suggesting [index design itself - not cost](#) - may be the most powerful driver of returns.

As stock markets march upward, some investors worry about a possible correction or even a crash. **Fidelity International's Tom Stevenson** says that history shows the real question isn't timing the top, but whether you have the [time and liquidity to ride out inevitable downturns](#).

Australia is proud of its superannuation system yet our ranking in Mercer's global pension index continues to fall. What gives? **Tim Jenkins** and **David Knox** explain our [shortcomings and what can be done](#) about them.

Australia's wine regions reveal a surprising truth: prestige doesn't always equal property performance. **Vanessa Rader** says economic fundamentals like production volume, exports, and infrastructure often [drive stronger growth in regional housing prices](#) than reputation alone.

In this week's whitepaper, **Neuberger Berman** outlines its outlook for global fixed income and how it's [pivoting to new opportunities](#) in non-US markets.

Curated by James Gruber and Leisa Bell

13 ways to save money on your tax - legally

James Gruber

In 1991, the House of Representatives Standing Committee on Finance and Public Administration conducted an inquiry into print media, and billionaire Kerry Packer appeared before it. The committee pressed Packer on how little tax his companies paid, to which he replied:

"I am not evading tax in any way, shape or form. Now of course I am minimising my tax and if anybody in this country doesn't minimise their tax, they want their heads read because as a government I can tell you you're not spending it that well that we should be donating extra."

The remarks went viral – or at least as viral as they could go back in those days. And love him or hate him, Packer had a point.

So, how can people legally minimize their tax?

Recently, I came upon a book by Dr Adrian Raftery, *101 ways to save money on your tax – legally! 2025-26*. It offers helpful tips and strategies to reduce your tax bill.

Out of the 101 ways to save money on tax, I've chosen 13 that I think are most relevant to Firstlinks' readers:

1. Family Trusts

The book suggests trusts are a great way to manage and preserve family wealth.

There are two main types of trusts used by families:

- **Discretionary trusts:** These are often set up either to hold property and investments on behalf of family members or to operate a business.
- **Testamentary trusts:** These are created via a clause in the 'testament' or will of an individual, but don't get established until after the individual dies.

Trusts have the following benefits:

- **Asset protection:** Family assets may be protected from 'creditors and predators' in the event of bankruptcy and insolvency.
- **Australia-wide:** Can be operated in every state and territory.
- **Flexibility:** Can cater to a variety of beneficiary classes and investments, and different types of income can be directed to different beneficiaries.
- **Don't have same reporting requirements as company structures.**
- **Tax minimization:** Income can be directed to family members on lower taxes.

While offering these benefits, it's also worth noting that the cost of establishing and maintaining a trust can be high, especially if the assets involved are not worth much.

2. Negative gearing

Australians love to negatively gear investment properties (where expenses exceed rent received) though Dr Raftery isn't a fan of the strategy. He says most people become asset rich and cash poor using negative gearing. And he says the tax benefit is usually only a small percentage of the loss incurred.

The only time that negatively gearing a property makes sense is when the capital growth of a property is greater than the negative cash outlay. And there are no guarantees that this is going to happen.

He suggests that when making an investment decision, you should follow the 'ABC motto' – Absolute Bloody Cashflow.

3. Co-ownership of your investment property

I include this as it's relevant for many people though doesn't get much attention.

Co-owners who aren't running a rental property business are regarded as investors and must divide income and expenses for rental property in line with their legal interest in the property.

If they own the property as joint tenants then they each hold an equal interest in the property.

However, if you are carrying on a rental property business in partnership with others, then you must divide the net rental income or loss in line with your partnership agreement. One tip is that if it's a partnership carrying a business, you may be eligible for generous small business concessions.

4. Dividends

I won't go through the ins and outs of franked versus unfranked dividends. There are a few things to note about dividends and tax:

- Franked dividends paid to non-residents are exempt from Australian income tax, but they are not entitled to any franking tax offset for franked dividends.
- The timing of dividend payments can cause confusion. If a final dividend is paid in July or August yet the dividend statement says it is in respect of the year ending 30 June, the dividend should be declared in the following tax year.
- You may not be eligible for the franking tax offset unless you continuously hold shares 'at risk' for at least 45 days around, and including, the ex-dividend date.
- For dividend reinvestment plans, all dividends paid, in cash or shares, must be included in your tax return.
- If you receive bonus shares, they aren't taxable on receipt but if you sell any received after 19 September 1985 you may have to pay tax on any capital gain and average out the cost base of your existing shares in the company.

5. Borrowing to buy shares

The book rightly points out that borrowing is a sound strategy in a rising market though it can multiply any losses in a falling market.

That said, by borrowing money to buy shares, you can claim a tax deduction for the loan interest, provided it's reasonable to expect that dividends or capital gains will be derived from the share investment.

The benefit of the strategy is that, "interest expense should offset any dividend income received, resulting in franking credits that can be offset against other taxable income. Hopefully the shares increase in value under this strategy and any capital gains are only realised in a later year when the taxpayer is on a lower tax rate, for example, in retirement."

One tip is that if you expect to earn lower income next year, you can prepay interest on your margin loan 12 months in advance before year end to maximise your tax deduction based on the higher marginal tax rate.

6. Other share deductions

- Travel expenses when visiting a stockbroker or AGM are fully tax deductible.
- Journals and publications: Payments for sharemarket information to help you manage your stock portfolio can be claimed against your investment income.
- Internet access: If you use the internet to manage your portfolio, the cost for that usage (not for other usage) will be deductible.

7. Inheriting share portfolios

If you get shares from a deceased estate, future dividends received are treated as normal income. The only exception is if a child under 18 gets income through a testamentary trust. Then, it's taxed at adult rates instead of the high rates imposed on minors.

Normal capital gains tax rules apply, although there are some exceptions based on when the shares are inherited and when they were originally bought by the deceased.

The book offers helpful advice on tax planning before someone dies:

- "Use any capital losses that are accumulated or unrealised prior to death, as these cannot be passed on to beneficiaries.
- Bequeath share portfolios to beneficiaries on lower taxable incomes so that the tax paid on income and capital gains in the future are minimal and the capital is preserved for as long as possible.
- Of the estate is substantial and there are children under age 18 who are potentially beneficiaries, consider establishing a testamentary trust so they can access the favourable adult marginal tax rates."

8. Employee share schemes

It seems more companies are giving employees the chance to participate in employee share schemes (ESS) by offering shares, rights or options at a discount.

If taxed upfront, the discount you get is assessable in the financial year you receive the ESS interests. You're also eligible for a \$1,000 reduction if your taxable income after adjustments is less than \$180,000.

If tax deferred, and you get less than \$5,000 of shares via salary sacrifice or there is a risk of forfeiture, the tax on any discount is deferred for a maximum of 15 years after you acquire the share/right.

Finally, options issued to employees of start-up companies after 30 June 2015 are taxed when they are converted to shares.

9. Self-Managed Super Funds (SMSFs)

SMSFs have many benefits. They can give you the freedom to decide how and where to invest your super funds.

They also have tax benefits. The maximum tax payable on contributions is 30% and only 15% for earnings. CGT on assets held more than a year is just 10%.

Earnings in the pension phase are not taxable, subject to transfer balance caps.

SMSFs aren't suitable for everyone though. Administrative obligations can be onerous and annual fees for administration and accounting can range from \$2,000 to \$6,000 for an average sized fund.

Property is becoming increasingly popular in super funds and Dr Raftery says it makes a lot of sense. After all, why buy an investment property based on post-tax dollars, at as much as 47%, when you can buy based on 15%? Also, it's better to pay 10% or even no tax on any capital gains rather than 23.5%.

Things to consider if you're looking to own investment property in an SMSF:

- Home ownership: You can't live in a property owned by your SMSF for private purposes.
- Related business leases: Commercial properties can be leased to a related business entity but only if there is a written lease in place.
- Costs. These will increase with having a property.

There are also benefits to holding shares in an SMSF. In the accumulation stage, an SMSF pays tax at a 15% rate. Any capital gains held for more than 12 months are taxed at just 10%. And once a pension is started, provided the balance is under \$2 million, a fund pays no tax at all on its income or its capital gains.

10. Transition to retirement

If you were over 60 years of age on 1 July 2024 you can begin a transition to retirement (TtR) pension and access up to 10% of your super each year tax-free to supplement your income. For those under 65 who are not retired, the earnings on the amount supporting the income stream will be taxed at 15%.

You can continue to work full-time if you wish while accessing up to 10% of your super each year.

If you're 65 or over and you begin a TtR, you can salary sacrifice any surplus income back into super. This can save tax along the way and help accumulate more benefits for your retirement nest egg.

11. Account-based pensions

There is no requirement to withdraw all your super just because you turn a certain age. Some elect to convert up to \$2 million of their super from the accumulation phase to the pension phase and start an income stream such as an account-based pension.

The bonus is that income streams receive favourable tax treatment.

Once you start a pension or annuity, a minimum amount, based on your age, is required to be paid to you each year.

Minimum percentage age factors, 2025-26

Age	Minimum % withdrawal
Under 65	4
65-74	5
75-79	6
80-84	7
85-89	9
90-94	11
95 or more	14

Source: ATO, Dr Adrian Raftery

12. Death benefits

"... there are three things in life that are certain: taxes, death... and taxes on death!"

Premature death may mean a large payment to family members, particularly when life insurance is attached to the fund.

Super doesn't form part of your estate. If you don't put a binding nomination in place, the super fund trustee has discretion to distribute super benefits to anyone they wish.

If a death benefit is going to a dependant, like a spouse or minor children, then it can be paid as an income stream or as a lump-sum payment. Lump-sum payments to dependants are tax-free. But lump-sum payments to non-dependants are taxed at 17% on the taxed element and at a maximum rate of 32% for the untaxed element.

Unlike with many overseas countries, there is no inheritance tax in Australia.

13. Estate planning

Dr Raftery rightly points out the importance of having a valid will that is regularly updated. It's not a set and forget process.

Dying without a will in place can potentially lead to an inequality in the distribution of an estate due to the higher rates of tax payable by some beneficiaries.

While death can be sudden, it is possible to do some planning before you die:

- "Use any capital losses that are accumulated or unrealised prior to death, as these cannot be passed on to beneficiaries.
- Bequeath share portfolios to beneficiaries on lower taxable incomes so that tax paid on income and capital gains in the future are minimal and the capital is preserved for as long as possible.
- If the estate is substantial and there are children under age 18 who are potential beneficiaries, consider establishing a testamentary trust so they can access favourable adult marginal tax rates."

Super isn't an estate asset and on death it doesn't automatically go to the estate of the deceased. That's why, as mentioned earlier, getting a binding death benefit nomination is vital. The nomination will be valid for three years.

If you become the executor of a deceased estate, you need to do several things including notifying the ATO that you have been appointed executor, lodging a final date of death return plus any outstanding prior year returns for the deceased and lodging any subsequent trust tax returns for the deceased estate.

Final notes

I've only touched the surface of the many ways to minimize your tax. For more detail, I'd recommend reading Dr Raftery's book. I'd also suggest Noel Whittaker's book, *Wills, death and taxes made simple*.

If you need further advice, go see an adviser.

James Gruber is Editor of Firstlinks.

Taking from the young, giving to the old

Robert Breunig

Australians are retiring with unprecedented levels of wealth. This wealth, which is primarily held in housing, investment properties and superannuation, allows retirees to draw incomes to support their retirement.

As Australians have become wealthier, we might expect government spending on social safety nets for older Australians to fall. Instead, we have seen these programs grow in real, per-person terms.

The overall result is older Australians have much higher incomes than previous generations of retirees. The average 75-year-old's post-tax and transfer income 25 years ago was little more than 75% of an average Australian income. Today it equals the average Australian income.

Older Australians also enjoy a post-tax income one third higher than Australians aged 18–30. This astonishing fact points to flaws in our tax and transfer system.

Older and wealthier than ever

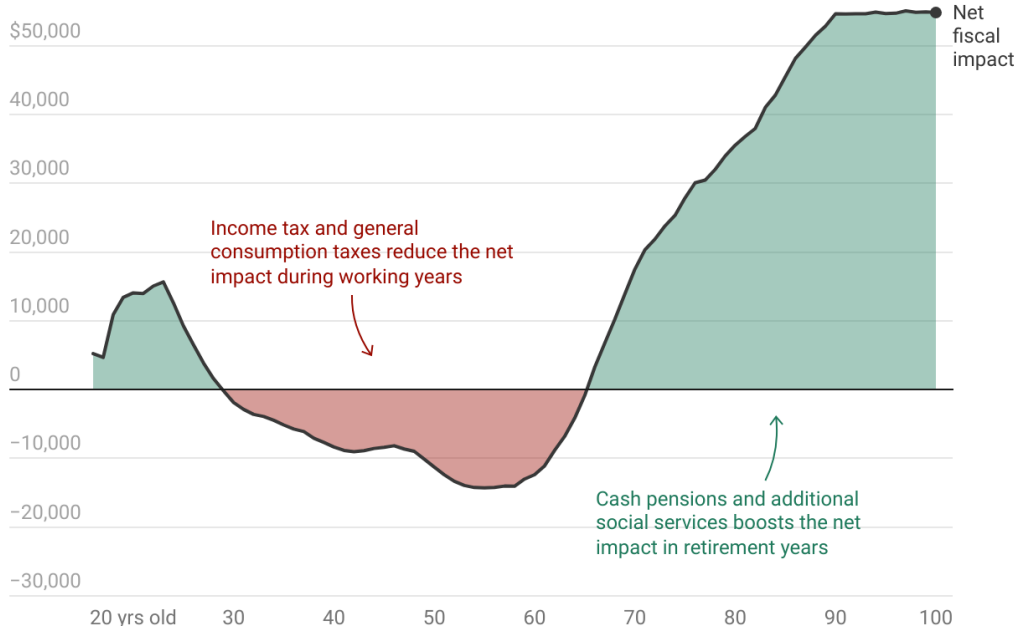
[Our research](#) shows the tax and transfer system treats people differently at different ages.

A “transfer”, in this context, is money people receive from the government, such as welfare payments. It also includes government provided services such as education, health care and aged care.

People receive benefits from the state as a child. They attend childcare paid for by government subsidies and they get a free (public) or subsidised (private) education.

Figure 1: Average net impact of the Australian tax and transfer system at different ages

The black line is the sum of taxes and government benefits from 2018-19 to 2022-23, meaning Australians below the age of 30 and above the age of 60 are net recipients of government services, while those in between are net taxpayers.

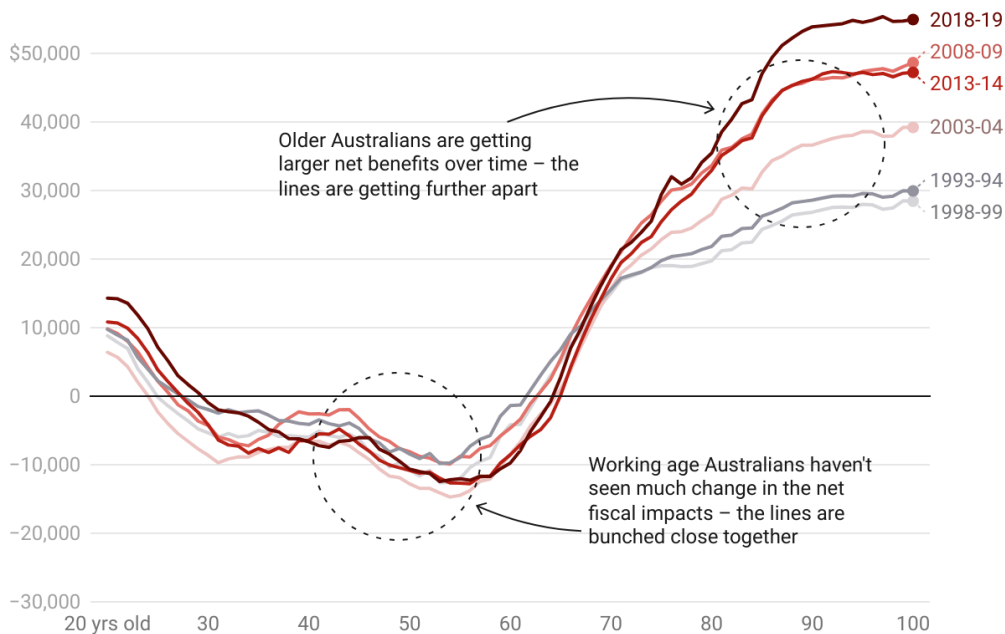


Derived by combining individual level data from the Household Income and Labour Dynamics in Australia survey (HILDA) and the Survey of Income and Housing (SIH) with aggregate values from the Australian National Accounts
Chart: The Conversation • Source: HILDA, SIH, author calculations • Created with Datawrapper

They then contribute more in tax than they receive from government while at their most productive, before once again enjoying an excess of transfers (more payments received than tax paid) later in life, as their productivity declines and they enjoy retirement.

Figure 2: Older Australians are getting a better deal over time

Average net fiscal impact when combining government benefits and taxes at different ages. Each line is a five year reporting period (eg: 1993-94 to 1997-98)



Derived by combining individual level data from the Household Income and Labour Dynamics in Australia survey (HILDA) and the Survey of Income and Housing (SIH) with aggregate values from the Australian National Accounts
Chart: The Conversation • Source: HILDA, SIH, author calculations • Created with Datawrapper

In our research, we first measure how private income throughout the life cycle has changed in the past three decades. This calculation includes income from all sources, including unrealised capital gains from housing and superannuation.

We found earnings have grown at all ages. Our peak earnings continue to occur in our 50s.

It also shows Australians are earning more passive income in retirement today than in earlier periods.

In the earlier periods of our study, older Australians earned relatively little income. The tax and transfer system provided income through the aged pension and in-kind support to give them an income similar to those at the beginning of their working lives.

In contrast, today's average Australian in their 60s has a substantially higher private income and receives substantially more from the tax and transfer system. They end up with the post-tax income of an average 40-year-old (without the pressures of saving for the future or supporting a growing family).

This means the nature of the tax and transfer system has fundamentally changed in the past three decades.

While most of our system relies heavily on means testing, ensuring government support goes to those who need it most, much of our assistance to older Australians is disbursed on the basis of age.

Age used to be a good marker of disadvantage. This is no longer true.

Skewing the advantages

The evidence is stark: the Australian government's relative expenditure on older Australians has increased significantly in recent decades, funded by those of working age.

At the same time, the wealth and incomes of those older Australians has increased more rapidly than for other age groups.

This is driven in part by good policy, ensuring Australians have strong incomes in retirement. We have succeeded in dramatically lifting the wellbeing of older Australians relative to several decades ago. Younger people today will similarly enjoy comfortable retirements.

But this significant change has several and serious implications for the future of Australia. These include the long-term sustainability of the federal budget and the broader design of the tax system. One third of total income is currently untaxed in our system. A [dual income tax](#), which taxes all income from assets at a low, uniform rate, would go a long way towards fixing this problem.

Wealth over a lifetime

Governments support people to even out the amount of income they have throughout their lives. But do we have the balance right?

While younger Australians face buying a home and raising a family (while contributing 12.5% to superannuation), older Australians enjoy, largely unencumbered, similar levels of income (and [often die](#) with significant superannuation balances).

We are taking money from people at an age where they need it most and giving it back to them when they appear to need it less.

[Sensible reform](#) that helps people spend retirement incomes and provides insurance against the worst possible outcomes would help.

We don't want to undo the policies that make older Australians wealthy but we need to make sure that future generations will have the same benefits.

What about housing?

Increases in house prices over the past decades have increased the wealth of older Australians, helping grow their private income in the form of both capital gains and imputed rent (what a homeowner would pay in rent).

This income has come at the expense of younger Australians and migrants buying into the housing market, effectively keeping them poorer for longer. For those whose parents have assets, the problem is short-lived or solved by the bank of mum and dad.

For those whose parents don't have assets, they may be locked out of home ownership for life.

The real inequality issue is between those young people who will inherit assets and those who won't.

What creates much of this housing inequity? Government policy.

Preferential tax treatment of housing increases demand and pushes up prices.

Zoning and planning regulations limiting new housing supply contribute around [40% to the price of houses in Sydney and Melbourne](#) and a quarter of all land within ten kilometres of Sydney's CBD is subject to heritage protections.

There are also many well-documented policies that discourage older Australians from downsizing. These include [capital gains exemptions](#) for houses homeowners live in, means test exemptions for owner-occupied housing, rates and utilities subsidies for older Australians, ageing in place programs, the lack of a [broad-based property tax](#) and [stamp duty](#).

To the extent that housing prices are driven by government policies that restrict land supply, these policies should be reversed as a matter of urgency.

And in the decades to come?

The current tax and transfer system is spiralling down and unsustainable.

As the government's obligations to older Australians (in pensions, in aged care and health care benefits) increase relative to the size of the economy, government will need to increase taxation on the productive sectors of the economy.

Postponed childbearing, exit from the workforce and other consequences will reduce the relative size of the economy's productive sector, ultimately exacerbating the problem to the point of disaster.

Clearly, policy must address this downward spiral sooner than later.

[Robert Breunig](#), Professor of Economics and Director, Tax and Transfer Policy Institute, [Crawford School of Public Policy, Australian National University](#). This article is republished from [The Conversation](#) under a Creative Commons license. Read the [original article](#).

An obsessive focus on costs may be costing investors

Macro Torque

The Australian investment landscape is set for another skirmish in the ongoing fee war. Recently, a new ASX300 exchange-traded fund launched with an expense ratio of 0.04%, challenging the incumbent and its 0.07% fee. Online, the excel models are already running hot in a ferocious contest over three-hundredths of a percentage point – a sum amounting to \$30 a year on a \$100,000 portfolio.

This forensic obsession with cost is not an accident. It is the natural result of a doctrine that has come to dominate modern finance: that the optimal path is paved with passive, market cap-weighted index funds. It is a philosophy that champions simplicity and low cost above all, offering an elegant solution that has become the comfortable default for millions. However, this narrow focus on explicit costs can create a significant opportunity cost, distracting from a far more consequential question.

What if the construction of the index itself is a more powerful driver of returns than the fee paid to track it? To question this default setting is often viewed as heresy. Let's test the hypothesis.

In this article I will take the industry's conventional benchmarks and assess them against their factor-tilted challengers. To ensure a robust comparison, we will deliberately handicap the challengers, subjecting them to their higher fees and a drag for trading costs – a penalty their cap-weighted parents do not pay. This creates a deliberately high hurdle for the factor strategies to overcome.

The results are illuminating.

The terms of engagement

Note: To avoid venturing into the world of financial advice I have avoided directly mentioning the underlying products that track these indices.

Here is exactly how I applied the expenses, ensuring a comparison grounded in real-world costs.

Each Index was debited a Management Expense Ratio (MER). The MSCI World Index parent portfolio was charged a 0.18% annual fee, while the MSCI World Factor Mix A-Series Index challenger paid the same 0.18%. Next came the handicap, applied only to the factor-tilts. On top of its MER, the Factor Mix A-Series was charged an *additional* 0.20% per annum 'turnover penalty' to account for the higher turnover costs of rebalancing its holdings.¹

This asymmetric penalty was even harsher in other segments. In small caps, the MSCI World Small Cap Index is charged a 0.45% MER. The Small-Cap Quality Index factor-tilt is charged a higher 0.59% MER *plus* a 0.30% turnover drag.

In emerging markets, the MSCI Emerging Markets Index pays 0.48%. The MSCI Emerging Markets Multi-Factor Index challenger is charged 0.69% *plus* another 0.30% turnover drag.

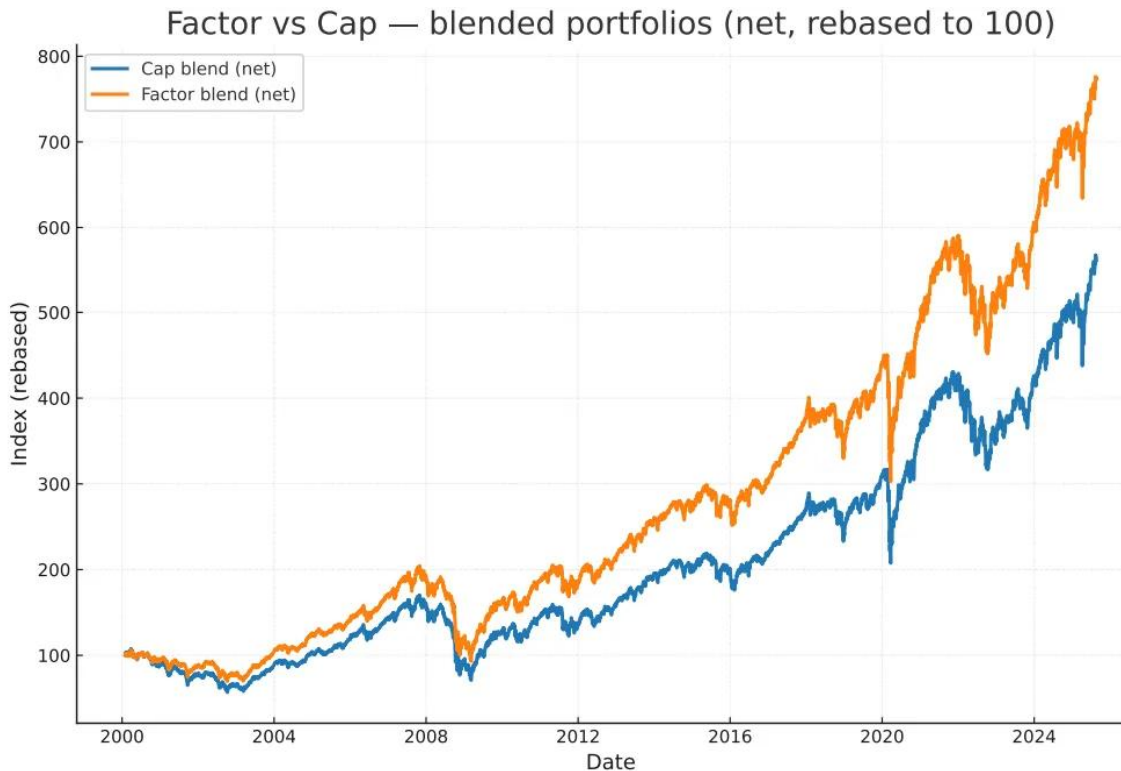
The factor portfolios were thus forced to compete under a realistic yet conservative cost disadvantage.

A consistent pattern of outperformance

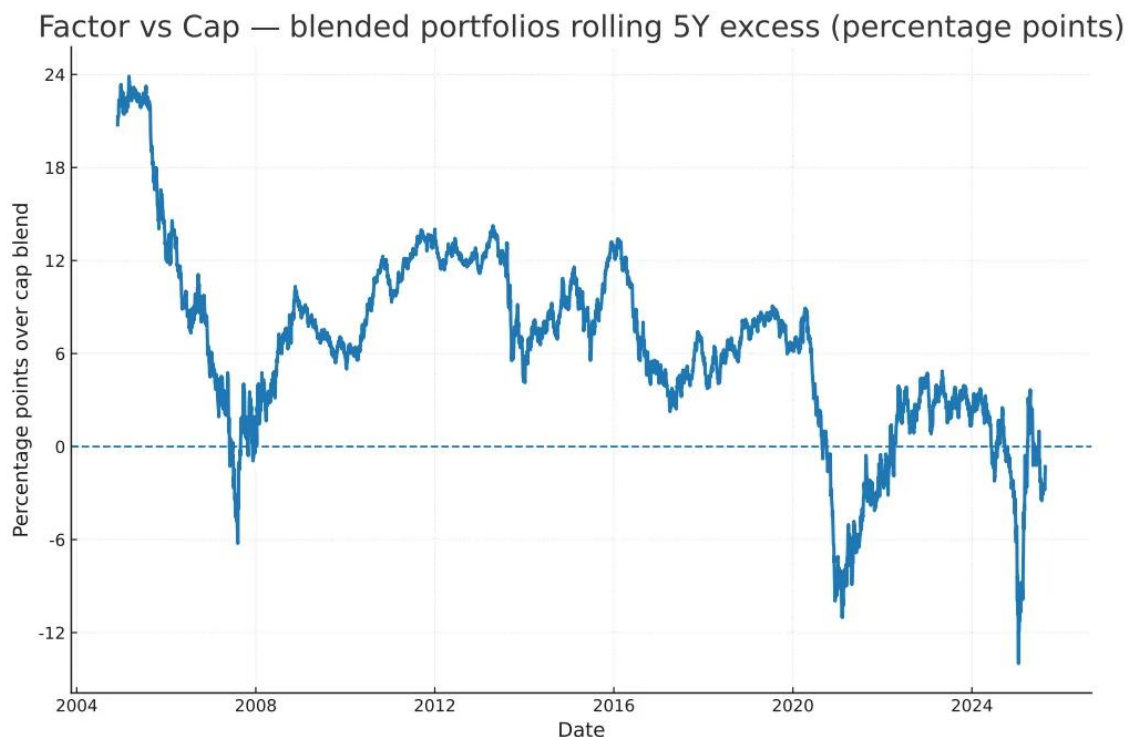
Let us begin with a globally blended portfolio, reflecting a typical investor allocation (75.68% developed markets, 12.32% small-cap, 12.0% EM). After all fees and tax-drags, the **factor blend compounded at 8.36% per year**. The conventional **cap-weighted blend returned 7.01%**.

This divergence resulted in the factor-tilted portfolio generating an annualised alpha of 1.8%, achieved with a superior risk-adjusted return (Sharpe ratio of 0.62 vs 0.50).

The factor-weighted portfolio outperformed the market cap weighted portfolio 87% of the time (based on 5-year rolling periods).



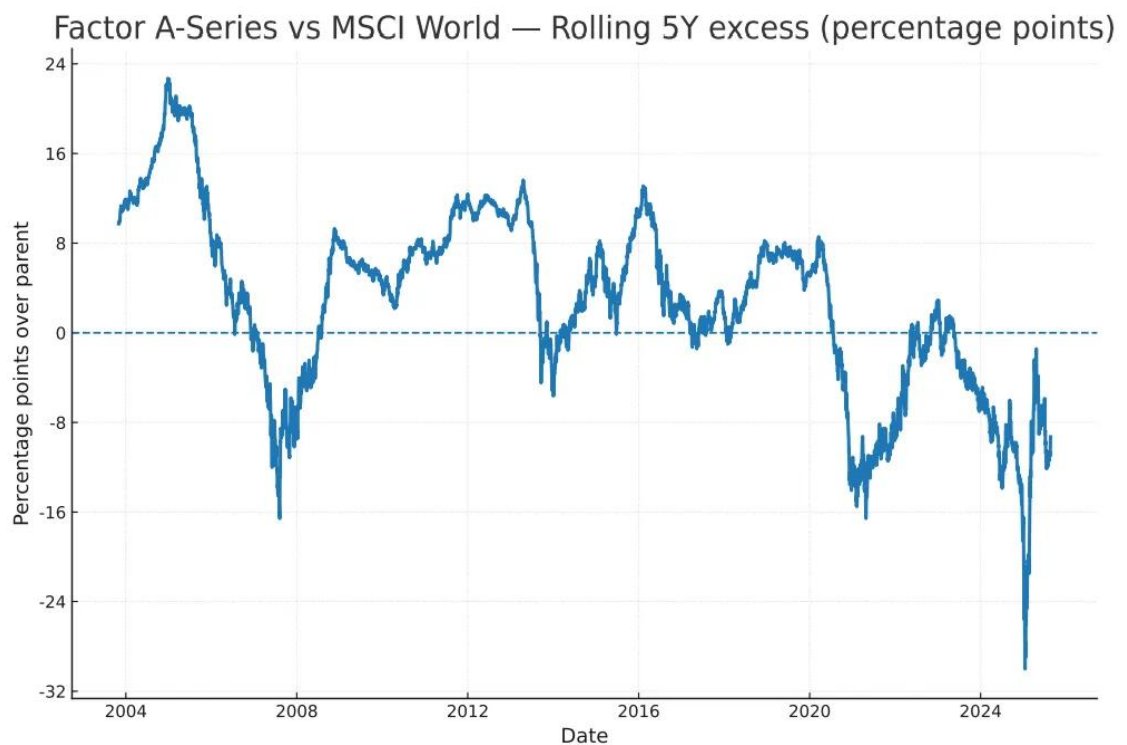
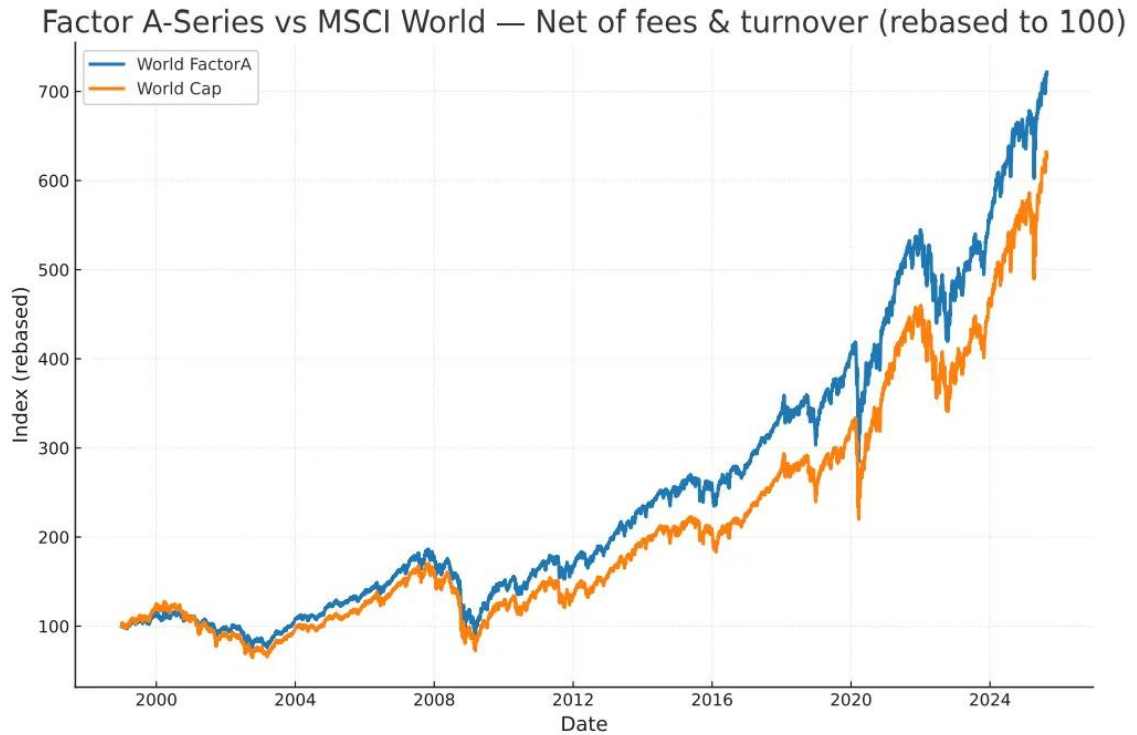
Weights: DM L/M 75.68%, DM Small 12.32%, EM 12.0%. Net of MERs and assumed factor turnover drag.



Excess = 5Y total return (factor blend minus cap blend) in percentage points.

The outcome becomes clearer when inspecting the individual segments:

- Developed Markets:** From 1 Jan 1999 to 21 Aug 2025, the MSCI World Factor A-Series delivered a net return of **7.69%** to the parent's (MSCI World) **7.13%**, achieving this with a lower beta (0.87) (higher risk adjusted returns) and generating an annualised alpha of over 1.2%.
The multi-factor option outperformed the market-cap weighted methodology 68% of the time.



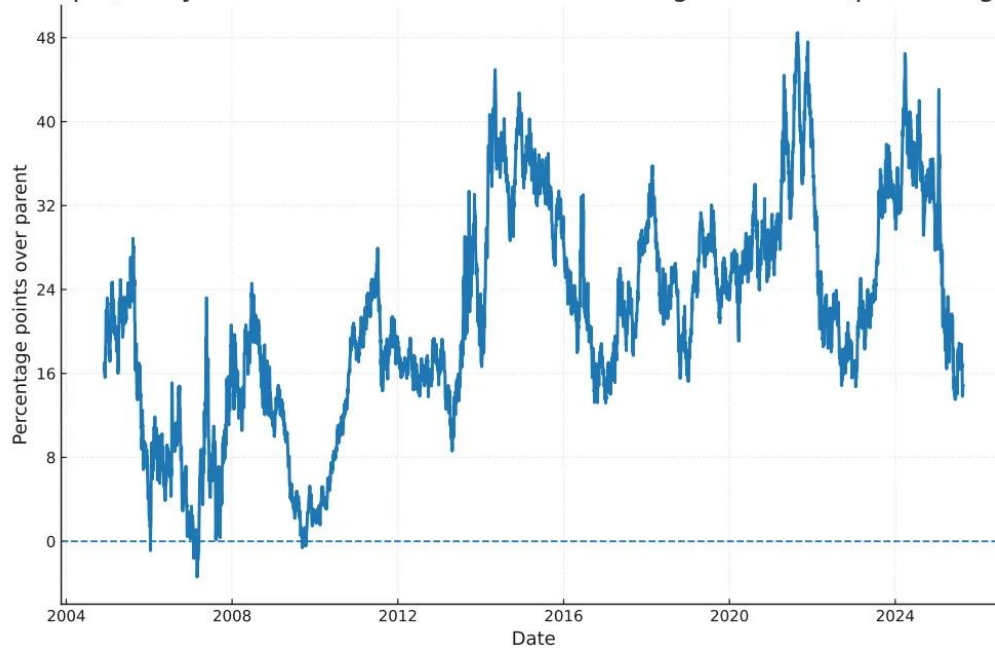
- Small-Caps:** The effect was most pronounced here². Since 1 Feb 2000, the MSCI World Small-Cap Quality Top 150 Index³ returned a net **11.23%** per year, decisively outpacing the parent's (MSCI World Small Cap) **8.32%**.
The quality-tilted small cap portfolio outperformed in 99% of all rolling five-year windows.

Small Cap Quality 150 vs MSCI World Small — Net of fees & turnover (rebased to 100)



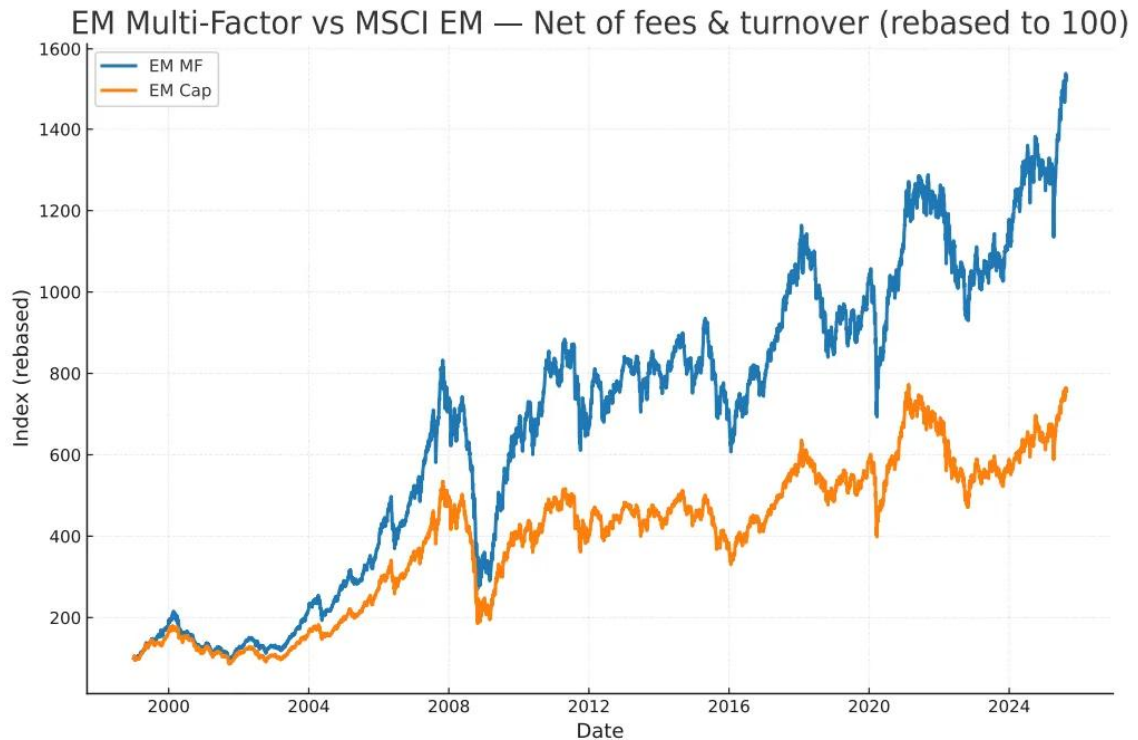
Source: MSCI daily indices; author calculations. Net of MERs and assumed factor turnover drag.

Small Cap Quality 150 vs MSCI World Small — Rolling 5Y excess (percentage points)

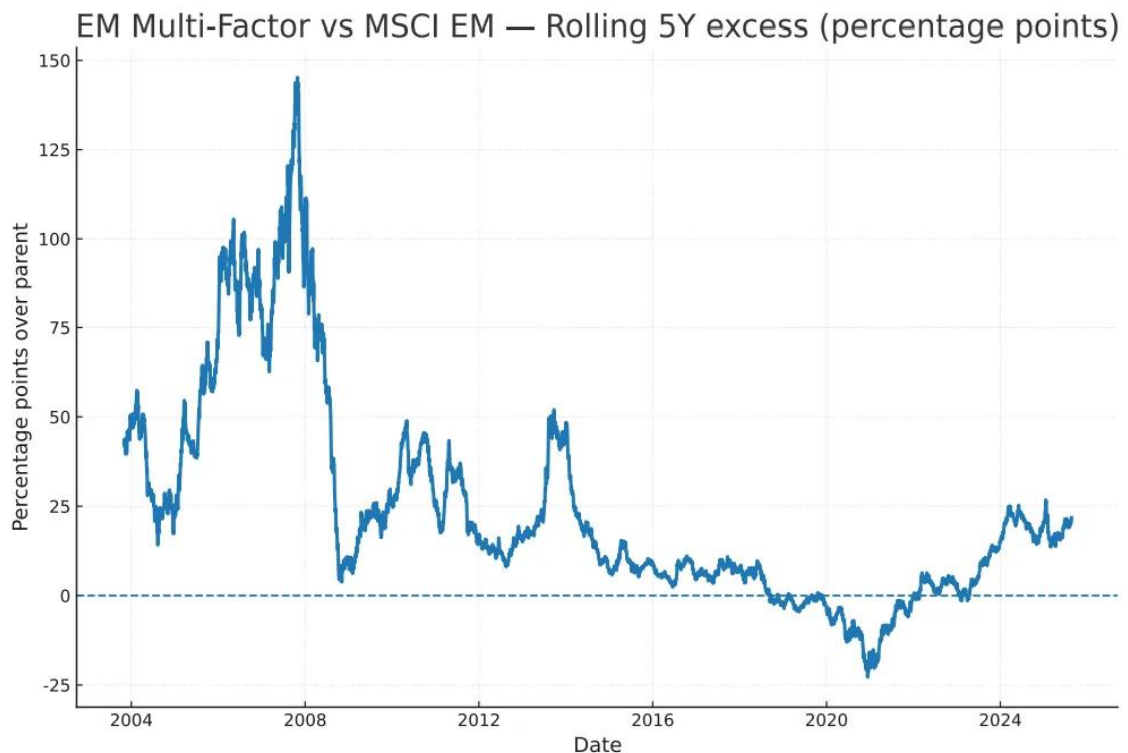


Excess = 5Y total return (factor minus parent) in percentage points.

- **Emerging Markets:** Even in this notoriously opaque segment, and after being charged nearly 1% in MER + turnover drag, the multi-factor challenger delivered **10.77%** versus the parent's **7.89%**, **winning in 85% of rolling five-year periods.**⁴



Source: MSCI daily indices; author calculations. Net of MERs and assumed factor turnover drag.



Excess = 5Y total return (factor minus parent) in percentage points.

The method behind the outperformance

These results are not a statistical accident. They are the outcome of strategies designed to harvest well-documented, academically rigorous sources of return known as 'factors'. The indices used in this analysis deliberately target exposures to Size, Value, Quality/Profitability, Low-Volatility, and Momentum – effects with decades of cross-market evidence first popularised by academic researchers Eugene Fama and Kenneth French.

The persistence of these factor premia is typically attributed to two main theories:

1. Risk-based explanations: These theories posit that the Capital Asset Pricing Model (CAPM) is incomplete, suggesting that other sources of systematic, undiversifiable risk exist beyond simple market exposure (beta). From this perspective, factor premia are the rational compensation investors demand for bearing these additional risks.

The **Value** premium, for instance, is often linked to 'financial distress' risk; value companies tend to be more mature, may have higher leverage, and are often more vulnerable to economic downturns. Their lower valuations reflect this heightened risk, and the premium is the reward for holding these stocks through periods of uncertainty.

Similarly, the **Size** premium is considered compensation for the risks inherent in smaller companies, which typically have less diversified revenue streams, more limited access to capital, and higher sensitivity to the business cycle compared to their larger counterparts. According to this view, the long-term outperformance of value and small-cap stocks is not a market inefficiency, but a fair payment for bearing specific economic risks not captured by market beta alone.

2. Behavioural explanations: Alternatively, behavioural theories argue that factor premia are the result of persistent and predictable cognitive biases among market participants. These systematic errors in judgment lead to mispricings that a disciplined strategy can systematically exploit. For example, the **Value** premium may be driven by **overconfidence** where investors become overly optimistic about 'glamour' growth stocks with compelling narratives, pushing their prices to unsustainable levels. The same extrapolation biases can fuel the **Momentum** premium, as investors project recent price trends far into the future.

The **Quality** and **Low-Volatility** anomalies are often attributed to a 'preference for lotteries', (such as 'meme-stocks' or eye-watering valuations for AI-adjacent stocks) where investors are drawn to speculative, high-risk stocks in the hope of outsized gains, causing them to overpay for these volatile assets. Consequently, stable, profitable companies tend to be systematically underpriced relative to their risk. From this viewpoint, factor investing is a form of arbitrage, capitalizing not on risk, but on the enduring patterns of human psychology.

Modern index construction is engineered to maximise exposure to these factors while implementing rules that contain turnover and minimise trading costs, which is why the real-world performance has remained robust.

The price of a differentiated return

This outperformance is not, however, *always* a 'free lunch'. There are extended periods where a factor-tilted approach will underperform a cap-weighted benchmark. When a market becomes fixated on a narrow group of glamour stocks – as it did with US tech megacaps from 2019 to 2024 – any diversified strategy is guaranteed to lag. These 'factor winters' are the price of admission for accessing the long-term premium.

A sceptic might correctly observe that the data presented here, from 1999 to the present, represents a mere quarter-century – a significant but not exhaustive period in financial history. However, it would be a mistake to assume these factor premia are a recent phenomenon.

The academic foundations for these strategies are built upon evidence that stretches back much further. The Fama-French three-factor model, a cornerstone of modern financial economics, documented the persistence of the Value and Size premia in US markets with data reaching as far back as 1926. Similar long-term studies across various international markets have repeatedly confirmed the robustness of these effects – including Momentum, Quality, and Low Volatility – over many decades and through numerous economic regimes. The outperformance shown in this analysis is therefore not an isolated anomaly of the modern era, but rather a recent confirmation of some of the most persistent and well-documented sources of return in financial history.

It is also worth noting the current state of the discourse. While the financial media and online forums fixate on a narrow cohort of popular technology stocks or the minutiae of cap-weighted fund fees, the academically robust factors such as value, size, and low volatility remain **deeply** unfashionable. In the world of investing, this is rarely a bad sign. Historically, the most rewarding returns are not found in the most crowded trades but in the most neglected ones. A lack of popular enthusiasm is often a harbinger of higher potential returns, as the premia associated with these strategies are not being competed away by a stampeding herd.

The debate over a few basis points on a management fee will continue to rage. It is, after all, a simple and tangible metric to anchor on. But the data presented here suggests it is a profoundly misguided obsession. The true cost of an investment is not found in the fractions of a per cent listed on a fact sheet, but in the percentage points of performance left on the table by choosing a suboptimal index. The conventional, cap-weighted portfolio may be the cheapest and simplest path, but the evidence is clear: it is far from the most profitable one.

¹ The additional turnover penalties of +0.20% p.a. for the A-Series and +0.30% p.a. for the Small-Cap Quality and EM Multi-Factor sleeves were chosen as all-in estimate of implementation costs based on three observations. First, MSCI's factor indices are explicitly engineered with buffers and constraints to moderate turnover, making them cost-efficient to implement. Second, empirical studies of transaction costs show that realised costs for broad, rules-based equity strategies are typically in the low tens of basis points annually, meaning the 20-30 bps assumption is a reasonable and not aggressive overlay (see [AQR article](#)) Finally, real-world tracking differences for passive funds often hew closely to their MER, as managers can offset trading friction through techniques like internal crossing and securities lending. Therefore, applying an additional 20-30 bps penalty on top of the MER serves as a reasonable safety margin.

² See the litany of [research](#) showing how the increasing “junkiness” of the small-cap market-weighted indices creates a significant drag.

³ The small cap quality factor used here is ex-Australia, compared to an index which includes Australia. I think this is negligible in terms of its effect on the discussion at hand.

⁴ There is significant [research](#) that adding a factor tilt to EM that re-weights shareholder returns (Quality, Dividend Yield/Value) helps with the ongoing dilution/issuance drag associated with EM exposure.

“Macro Torque” is an Australian Engineer (with a Finance Masters) who writes about Finance and Economics. This article is reproduced with permission from the [Macro Torque substack blog](#) (@macrotorque).

Clearing up confusion on how franking credits work

Jon Kalkman

If you open a bank account but refuse to disclose your Tax File Number, the bank is required by law to withhold tax from the interest paid to you. Your personal tax return needs to report all of the interest you earned, not just the after-tax portion you received. Your tax return must include that pre-paid tax, otherwise you would be paying tax twice on the same interest income. If you were not required to pay any tax, you would expect this tax previously withheld by the bank, paid to the ATO on your behalf, to be refunded to you.

How franking credits work

In most countries company profits are taxed twice. The company pays tax on its profits; the after-tax portion is sent to investors as a dividend and is then taxed again as personal income. In Australia, company profits are only taxed once - as personal income for shareholders.

As part-owners of a company, Australian shareholders are responsible for the tax on their share of the total company's profits, not just the portion they receive as dividends. Therefore, their personal tax return needs to incorporate the pre-paid company tax withheld before they received their dividends.

This is achieved by adding the pre-paid company tax component of the dividend - franking credit – on to the personal taxable income of the dividend sent to the shareholder, who then must pay tax on that larger amount. It means shareholders are required to pay tax on income they never received, but the pre-paid company tax becomes a tax credit in that personal tax return.

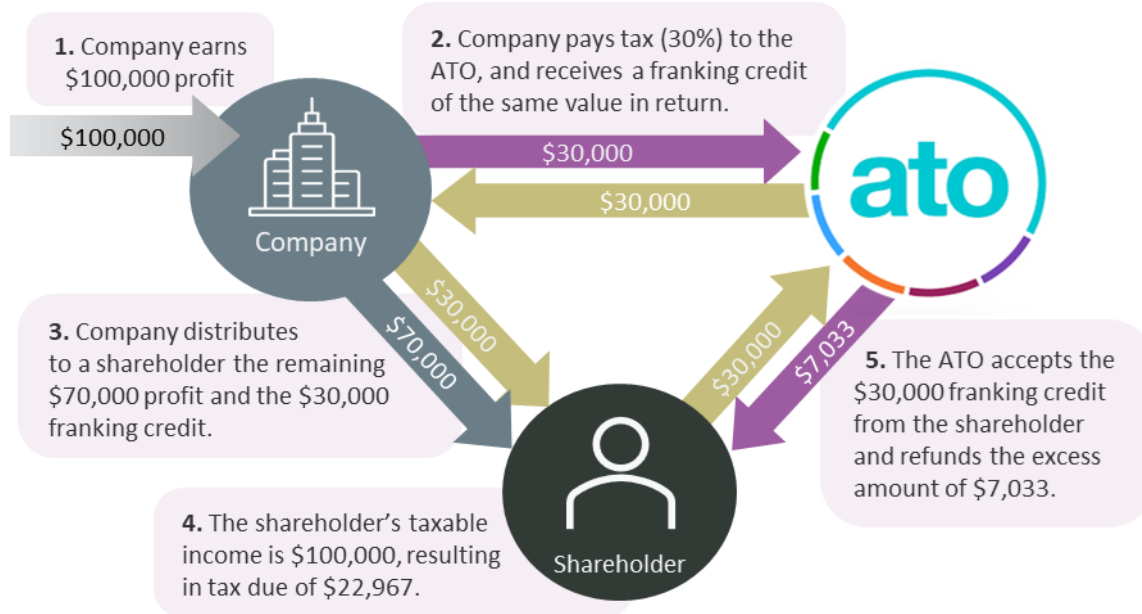
With a \$100 of company profits, \$30 was sent to the ATO as company tax (30%) and \$70 was sent to the investor as a dividend. The shareholder's share of the company's profit is \$100, not \$70, and so the shareholder's taxable income is \$100, not \$70. That's why the dividend needs to be "grossed up" - to include the franking credit as part of that personal taxable income. The tax payable on that taxable income of \$100 depends on the shareholder's marginal tax rate.

For shareholders with a marginal tax rate of 45%, they must pay \$45 tax on that taxable income of \$100 - and they pay more tax finally on that company profit than the company did initially. But the \$30 pre-paid company tax becomes a tax credit and they only need to pay an additional \$15 tax.

If the shareholder has a 30% marginal tax rate, their tax bill is \$30 which is equal to their pre-paid tax credit and they have no more tax to pay. Their dividends are not tax-free; they are tax paid - that's why it's called "franking" - just like pre-paid postage.

For shareholders with a marginal tax rate lower than 30%, the tax credit is larger than their tax bill and they get a tax refund, just like a worker whose employer has paid excess tax on their behalf. It is a tax refund because it comes from the ATO, but it is actually an income payment from company profit, due to them as shareholders/owners that was withheld by the ATO until they completed their own tax return, on which no tax is payable.

Figure 1: Flows of tax and franking credits



Source: [Parliamentary Budget Office](#).

It is a fair system

Franking credits are NOT a refund of tax never paid; they are a refund of income never received.

It would be more honest if the income derived from Australian shares were quoted as a pre-tax distribution which is the 'grossed-up' income amount of dividend PLUS franking credit - because that is every shareholder's taxable income. The income distributions derived from every other investment class is quoted on a pre-tax basis.

Franking credits represents the same extra income (and the same pre-paid tax credit) for every shareholder, not just retirees. Note that the grossed-up amount is 42.85% higher than the dividend alone. (\$100 compared to \$70). Shareholders with high marginal tax rates use that extra income to pay some or all of their tax obligation. Shareholders with low marginal tax rates get some or all of that extra income refunded because they don't need to pay as much tax.

Parliament has determined that the Future Fund, unions, hospitals, universities, charities, most pensioners and all super funds in pension mode, pay zero tax. For those taxpayers, their taxable income is \$100, and their after-tax income is \$100 comprised of \$70 dividends and \$30 franking credit refund. The refund is solely determined by their marginal tax rate.

For Australian taxpayers, franking credits ensure that company profits are always taxed only once, and always taxed as personal income for shareholders at their personal marginal tax rate. The system also ensures that foreign investors always pay tax in Australia at the company tax rate, because it is withheld before they receive their dividends.

The ATO could achieve exactly the same result of taxing company profits as personal income in the hands of shareholders at their marginal tax rate if there was no company tax, and all company profits were simply distributed to shareholders as taxable income, but then foreign investors would pay no tax in Australia.

Jon Kalkman is a former Director of the Australian Investors Association. This article is for general information purposes only and does not consider the circumstances of any investor. This article is based on an understanding of the rules at the time of writing and anyone considering changing their circumstances should consult a financial adviser.

Are the good times about to end?

Tom Stevenson

One topic is cropping up a lot in my conversations with investors. It is, you may not be surprised to read as the bull market approaches its third birthday, a variant of: 'are the good times about to end?' It's a good question but impossible to answer. Which makes another one possibly more interesting: 'how much does it matter?'

This is less stupid than it sounds. Of course, we'd all like to avoid market corrections, especially big ones that take a meaningful chunk out of our savings or upset our retirement plans. But given how difficult it is to time the tops and bottoms of the market cycle, it is perhaps more useful to simply understand the risks we are taking by staying or going. And to ask ourselves how we will feel if we call it wrong.

What a recent academic study says

Fortunately for me, three London Business School professors - Marsh, Dimson and Staunton - have crunched the relevant numbers on behalf of UBS's Global Investment Returns Yearbook. To start with, they have provided some context - the scorecard of the six worst episodes for investors during 125 years of market history from 1900 to 2024.

These periods of shocking investment returns - what people are thinking about when they whisper the crash word - were associated with two world wars, the Great Depression, the 1970s oil shock, the dot.com bust and the financial crisis. Even if you disregard the near total losses incurred by the losers in the two global conflicts, the evisceration of wealth in these periods was dramatic - as much as 80% in real terms in the case of Wall Street after the 1929 crash.

How much these kinds of market falls matter is largely a function of whether you have the liquidity and time to ride them out. The Wall Street crash saw the longest wait until a full recovery had been made - of fifteen and a half years. The other peacetime mega bear markets were quicker to heal. Only two years in nominal terms but ten, adjusted for inflation, during the 1970s bear market. Seven and a half years after the dot.com bust and just over five years after the financial crisis.

These figures all relate to the US market. For American investors, that period after the Wall Street crash is as bad as it got. There's never been a period of 16 years or longer when you haven't made money in US shares, even if you had the misfortune to buy right at the top.

For non-US investors the picture is not quite so reassuring. Many countries, including the UK, have always given you a positive return if you held on for 22 years or more. But there are seven countries, including some pretty mainstream investment destinations like Germany, Japan and Italy, for which the shortest period that would guarantee a positive return from shares has been more than half a century.

So, the answer to whether a big market correction matters is: yes, especially if you are not American and not young. For the rest of us, the potential damage to our financial outcomes is inversely proportionate to our investing timescale. By the time you get to my age, the possibility of a life-changing downturn concentrates the mind.

Mixed evidence on diversification protecting portfolios

One of the things I find myself saying when discussing the market's ups and downs is that diversification can help protect your portfolio from the worst ravages of a correction. The historical evidence on that is mixed.

There is certainly a wide dispersion of returns during the worst periods. For example, during the First World War, while German shares fell by 66%, those in Japan rose by the same margin. British shares were down 36% between 1914 and 1918, but those in the US only fell by 18%.

The more recent peacetime bear markets have tended to be more indiscriminate, however. In 2008, during the financial crisis, US shares fell by 38%, while those in the UK were 33% down and 43% lower in Germany. Japan was off 41%. So not a lot of protection from spreading your bets.

In fact, there is some evidence that correlations rise during periods of crisis and in bear markets. You might say, diversification lets you down when you need it most.

I'd like to think that the much higher valuations in the US market, and the fact that the focus of the artificial intelligence (AI) bubble, if that is what it is, is in America, make things different this time. A tech-focused US market correction could have less of an impact in some of the world's less stretched markets, like in the UK and some emerging markets. But I don't think I'd want to rely on this to bail me out if the AI boom does end badly.

Higher rewards come with greater risk

In the long run, stock market investors are rewarded for accepting the risk of investing in a volatile asset class like equities. The reward is measured by the extra return that stock market investors can expect over time compared to those leaving their money in cash or investing in bonds. This equity risk premium has averaged 8% a year since 1900 in America and 6% a year in the UK.

Which is fine if time is on your side. For my young adult kids, my advice remains the same. Be diversified, save as much as you can afford and put your faith in the stock market. For the rest of us, especially those approaching retirement, protecting our gains after several years of strong returns is more than theoretical. If someone had told me during the Covid lockdown that I could double my money in a few years and then lock in a 4% or 5% return thereafter, I might well have bitten their hand off. I'm not surprised that it's what our investors want to talk about.

Tom Stevenson is an Investment Director at [Fidelity International](https://www.fidelity.com), a sponsor of Firstlinks. The views are his own. This document is issued by FIL Responsible Entity (Australia) Limited ABN 33 148 059 009, AFSL 409340 ('Fidelity Australia'), a member of the FIL Limited group of companies commonly known as Fidelity International. This document is intended as general information only. You should consider the relevant Product Disclosure Statement available on our website www.fidelity.com.au.

For more articles and papers from Fidelity, please [click here](#).

© 2024 FIL Responsible Entity (Australia) Limited. Fidelity, Fidelity International and the Fidelity International logo and F symbol are trademarks of FIL Limited.

Australia slips in global pension ranking

Tim Jenkins, David Knox

The [2025 Mercer CFA Institute Global Pension Index](#) (MCGPI) showed that Australia's Index score had improved to its highest level in 10 years but remained a B+ grade system. It ranked Australia 7th out of 52 pension systems around the world. While this result appears commendable, it represents Australia's lowest ranking in the 17 years of the Index.

Indeed, in the last two years, both Singapore and Sweden have overtaken Australia.

Furthermore, if one considers the 17 years since the Index commenced, the average score for the pension systems that have been included throughout this period has increased by 9.9 whereas the Australian score has only increased by 3.6.

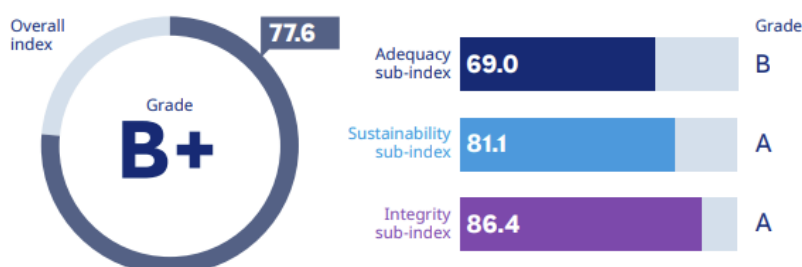
There is a similar trend, although not as dramatic, if we compare the five years since 2020. In this case, the average increase has been 4.8 compared to the increase in the Australian score of 3.4, thanks to the increase in the superannuation guarantee to 12% and the growing superannuation coverage of the working age population.

Since its beginning, the MCGPI has considered each pension system from three different perspectives, namely:

- Adequacy – what benefits are provided to retirees?
- Sustainability – can the system keep delivering benefits for decades to come?
- Integrity – does the system promote confidence through transparency and appropriate regulations?

The Australian system scores well in respect of sustainability and integrity with A grade ratings and placings of fifth and eighth respectively. However, when adequacy is considered, Australia is B grade and ranks 24th out of the 52 systems with a score that is 11.6 out of 100 below the average for the six systems above us (namely Netherlands, Iceland, Denmark, Singapore, Israel and Sweden). Clearly, we should do better.

Australia



Source: Mercer

Why are we slipping?

So why is the Australian score so poor when adequacy is considered? After all, the SG has now reached 12% and that should provide a reasonable retirement benefit for most workers. There are two main reasons.

The first is the impact of the assets test on the Age Pension for those who have had a career with median or above median earnings. The OECD, which calculates the net replacement rates used in the MCGPI, assumes that in the early years of retirement the impact of the asset tests means that many retirees will receive very limited, if any, Age Pension due to their superannuation. On the other hand, in the later years of retirement, the OECD reckons that some Age Pension will be received as the level of superannuation assets is assumed to decline. This means the relatively harsh assets test that currently applies, has a direct effect on our global ranking.

The second reason is more fundamental and reflects the current design of our superannuation system. We have developed a very good system that now covers all employees with a 12% contribution rate and that, in the vast majority of cases, is invested wisely producing a good long term return.

However, it is not a retirement income or pension system! There are no requirements for superannuation fund members to withdraw any part of their superannuation when they retire. This is in stark contrast to the best pension systems in the world which require most or all of the accumulated benefits to be withdrawn on a regular basis.

Even pension systems in countries which have a similar legislative background to Australia have introduced such requirements.

For example, in a Canadian defined contribution pension plan, pension payments must generally begin by the end of the calendar year in which an individual turns 71. In the UK, an individual can normally make withdrawals from their pension pot between the ages of 55 and 75. If no withdrawals are made by age 75, a “benefit crystallization event” occurs. The USA provides another example where there are required minimum distributions from age 73.

These requirements in other systems mean that the accumulated funds are used to provide retirement income and not for estate planning or intergenerational wealth transfers. This income-based approach would also limit the growth of superannuation balances during retirement.

We need a retirement income system

Of course, the Retirement Income Covenant and the follow-up actions by both APRA and ASIC are requiring superannuation fund trustees to have a much stronger commitment to developing appropriate strategies for members approaching and during retirement.

However, this pressure does not mean that accrued benefits will be converted into retirement income. Indeed, as at June 2025 there are more than 850,000 MySuper accounts for Australians aged 65 and over with an average balance of \$116,000^[1]. Of course, some of these individuals may still be in the workforce but most of them will have retired. By remaining in MySuper, their balances have not been moved to pension phase where there is a requirement for a minimum amount to be withdrawn every year.

Many of these MySuper members will have had very limited engagement with their superannuation. It has all happened automatically and that is a good outcome. However, at retirement, that automatic process stops and individuals must take action. The result is that many retirees are not receiving an income from their superannuation account which could make a significant difference to their standard of living and help provide them with a dignified retirement.

Australia has a very good accumulation system for retirement, but we do not yet have a retirement income system. We should make it a requirement that from age 75, Australians must begin to withdraw their superannuation.

The introduction of an income requirement, together with a moderation of the assets test, would improve the retirement income for many older Australians and improve Australia's ranking in the MCGPI. Without such a focus on retirement income, Australia cannot claim to have a world class retirement income system.

[i] APRA, Quarterly superannuation industry publication, June 2025, Table 7a

[Tim Jenkins](#) is a superannuation expert and actuary, and is a Partner at Mercer Australia. [Dr David Knox](#) is a global pension expert and actuary, who recently retired from being a Senior Partner at Mercer.

Where wine country meets real estate

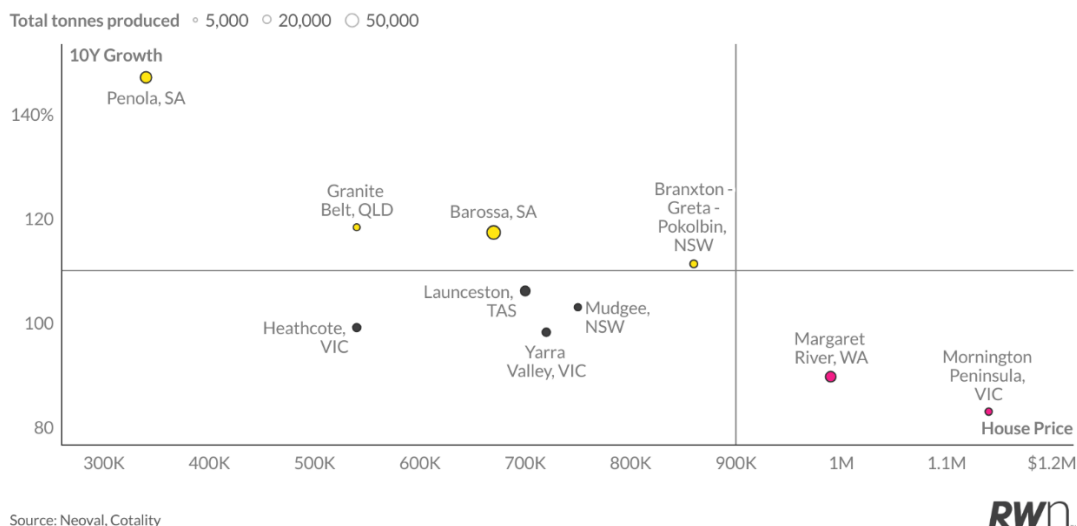
Vanessa Rader

Australia's wine regions present a property paradox: the most prestigious wine areas don't necessarily command the highest prices or strongest growth.

The relationship between wine industry fundamentals and residential property performance reveals that production volume, export economics, and infrastructure investment often matter more than reputation alone.

This production flows through regional communities, creating economic activity that impacts property values, though not always as expected.

Wine region property performance



The outstanding performers

Penola, SA: Penola serves as the commercial hub for the famous Coonawarra wine region, renowned for premium Cabernet Sauvignon.

The town benefits from the economic activity generated by one of Australia's most respected wine areas without commanding vineyard-adjacent pricing.

Coonawarra's focus on premium reds has benefited significantly from the resumption of China trade, where exports grew from virtually zero to 59 million litres in six months following duty removal.

Granite Belt, QLD: Queensland's high-altitude wine region demonstrates how emerging areas with solid fundamentals can outperform established markets.

The region benefits from accessibility to Brisbane while maintaining authentic wine country character at reasonable price points.

Barossa Valley, SA: The Barossa's substantial production footprint of 53,100 tonnes represents 3.7% of Australia's national crush, supporting diverse economic activity beyond tourism.

This volume creates employment across logistics, processing, and support industries, underpinning consistent property demand.

The region's combination of volume production and premium export positioning has benefited strongly from renewed Asian market access.

Hunter Valley, NSW: Branxton-Greta-Pokolbin represents the heart of the Hunter Valley wine region, combining premium wine production with strong tourism infrastructure and proximity to Sydney.

The 5,635 tonnes crushed in the broader Hunter Valley creates solid economic fundamentals, while the region's established cellar door culture and events calendar support consistent property demand from both lifestyle buyers and tourism-related investment.

The established premium markets

Margaret River, WA: Despite producing wines that contribute significantly to Australia's \$3.72 per litre export average, Margaret River's premium positioning may have reached natural growth constraints.

The region's 25,661 tonnes represents just 1.6% of national production, creating a boutique economic base that supports high absolute prices but limits broader economic impact.

Mornington Peninsula, VIC: Australia's most expensive wine region property market shows how lifestyle premiums can reach saturation points.

While the Peninsula commands top prices due to proximity to Melbourne and prestigious Pinot Noir production, moderate growth rates suggest these premiums may have natural ceilings.

The balanced performers

Mudgee, NSW: Mudgee exemplifies successful regional wine area economics, balancing accessibility with wine industry fundamentals.

The region benefits from reasonable distance to Sydney while maintaining authentic agricultural character and growing wine tourism infrastructure.

Heathcote, VIC: Heathcote outperforms the more prestigious Yarra Valley despite lower wine tourism profile, suggesting production fundamentals and infrastructure investment drive better long-term returns than reputation alone.

Yarra Valley, VIC: Despite strong wine tourism credentials and proximity to Melbourne, Yarra Valley's 8,982 tonnes represents just 0.6% of national production.

This limited agricultural scale may constrain broader economic impact compared to regions with more substantial output.

Infrastructure and economic fundamentals

Wine regions require substantial fixed infrastructure that provides economic stability beyond vintage fluctuations.

Australia's wine inventory of 1.96 billion litres represents approximately \$5 billion in stored value, demanding warehouses, cellars, and processing facilities that create ongoing employment.

The domestic market absorption of 457 million litres annually, roughly 24 bottles per Australian, provides crucial economic stability for regions with strong cellar door profiles. Vineyard establishment costs between \$25,000-\$40,000 per hectare, while modern winery construction represents millions in regional investment.

The Tasmanian turnaround

Launceston, TAS: Tasmania's property market has clearly responded to the state's wine industry expansion. With the state recording its second consecutive record crush in 2025 at 18,764 tonnes (up 61% over two years), Launceston's strong 106.1% decade-growth reflects the broader economic benefits flowing from Tasmania's emerging wine reputation and increasing production scale.

The wine-property connection

The data reveals that successful wine region property markets share common characteristics:

1. Substantial production volumes creating economic stability
2. Strong export exposure benefiting from global wine trade
3. Infrastructure investment providing employment beyond agricultural cycles

Regions with pure premium positioning without volume may struggle to generate the broad economic activity that drives sustained property growth.

Conversely, high-volume commercial regions without lifestyle appeal face challenges commanding significant property premiums.

The strongest wine region property performers balance solid industry fundamentals with accessibility to major population centres and reasonable pricing that allows continued growth rather than hitting lifestyle premium ceilings.

Export exposure, particularly to recovering markets like China, provides additional economic momentum that regional property markets clearly respond to.

Vanessa Rader is Head of Research at [Ray White Group](#).

Disclaimer

This message is from Morningstar Australasia Pty Ltd, ABN 95 090 665 544, AFSL 240892, Level 3, International Tower 1, 100 Barangaroo Avenue, Barangaroo NSW 2000, Australia.

Any general advice has been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) without reference to your financial objectives, situation or needs. For more information refer to our Financial Services Guide at www.morningstar.com.au/s/fsq.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Past performance does not necessarily indicate a financial product's future performance.

For complete details of this Disclaimer, see www.firstlinks.com.au/terms-and-conditions. All readers of this Newsletter are subject to these Terms and Conditions.