Firstlinks
a Morningstar company

Edition 666, 12 June 2026

Contents

Editorial

Investors often use the term 'priced for perfection' to indicate when high expectations are reflected in a share price. In an editor's note several weeks ago I pondered the investor expectations for the US market and in particular the wider AI narrative.

Chip maker Broadcom is very much caught up in the hype. On 9 June 2025 the shares were trading at $244. By the 2 June 2026 they were trading at $488 after doubling in price in less than a year.

Since reporting results on 3 June the shares have fallen about 20%. This is a significant move for the sixth largest company in the S&P 500 with a market cap of approximately $1.86 trillion after the steep drop in the share price.

The price swing is indicative of an increasingly volatile market and optimistic AI investors who expect news to keep getting better.

Specifically, what spooked investors was Broadcom's AI revenue guidance for 2027. In March the company issued guidance that AI revenue in 2027 would total $100 billion. Three months later Broadcom maintained their guidance.

It is hard to see this announcement as bad news since Broadcom didn't reduce guidance. But when it comes to AI the numbers are supposed to keep getting bigger.

Who is investing in AI?

Groucho Marx famously joked that he would never join a club that would have him as a member. I often think of this quote when contemplating the impact of herd mentality in investing.

Who is investing in particular shares and what they want matters. If you understand the motivations of different types of investors their behaviour is less surprising.

There are several reasons Bitcoin is not an investment that I would consider. I'm an income investor and since Bitcoin doesn't provide income it is a non-starter. But I've also always been concerned about who was investing in Bitcoin and how they would likely behave.

Bitcoin advocates have argued about the importance of the underlying technology and the benefits of the decentralised nature of Bitcoin. I accept these arguments and ultimately what gives anything value is simply the acceptance among people that it is valuable.

But I don't think any specific attributes of Bitcoin are motivating most people buying and selling Bitcoin. They are speculating that Bitcoin will rise in value quickly and significantly.

When the only reason you buy something is because you think it will go up a significant amount quickly you don't tend to have much patience. This can lead to high levels of volatility.

Source: Google Finance

Bitcoin's all-time high was $126k US in October of 2025. It is currently trading at around $61k. One of the reasons cited for this decline according to Bitwise CIO Matt Hougan is the former speculators in Bitcoin have moved onto AI. Hougan says the attitude is "Who needs crypto when the Nasdaq-100 is up 43% year-over-year?"

None of this suggests that the companies at the heart of the AI narrative will not make great long-term investments. But many investors may not be focused on the long-term. There is likely going to be a good deal of volatility along the way if guidance doesn't keep going up in a straight line.

Final thoughts

Volatility is both a risk and an opportunity. The more volatile an investment the higher the behavioural risk of investors doing something stupid to hurt their returns.

But with those big price swings comes opportunity for investors who can focus on the underlying business and ignore the share price. Broadcom just might be an example as the Morningstar analyst

covering the company thinks the $100 billion of guidance is conservative and expects $200 billion in AI revenue in 2027.

A little mental preparation for volatility and a focus on the long-term pays off in every market environment. I have a feeling the current environment won't be an exception.

Mark Lamonica

Also in this week's edition...

Meg Heffron walks through whether CGT changes shift Division 296 tax decisions.

The budget has introduced a great deal of uncertainty surrounding testamentary trusts. **Dr Sylvia Villios** examines the implications for estate planning. Five tax cuts have been handed down in the Federal budget. **Tony Dillion** looks at how the cuts stack up against bracket creep.

Quality strategies shine globally, but Australia's concentrated market tells a different story. **VanEck** shares the limits of a quality investing approach in Australia. Fresh questions are being raised as private markets expand. The **Neuberger Private Markets** team explores balancing opportunity and complexity.

As EOFY approaches, **Chris Cuffe** discusses why strong returns matter as much as generosity. **Simonelle Mody talks** about why asset allocation is the most important investment decision you'll ever make.

This week's white paper from **Yarra**'s Tim Toohey, explains why the RBA is unlikely to raise rates further during the current cycle.

Curated by Simonelle Mody and Leisa Bell

Meg on SMSFs: The CGT changes don't impact super but what about Div 296 tax decisions?

Meg Heffron

The legislation to implement the capital gains tax changes announced in the May 2026 Federal Budget sailed through the House of Representatives but will obviously face a tougher crowd in the Senate. If it's passed, it won't impact super funds at all. But since it impacts most of the *alternatives* to super, will it change the considerations for people facing Division 296 tax?

In a nutshell – the changes make it **less attractive to withdraw money from super**. That doesn't mean no-one should do it, but the changes weaken the case for taking action. (Helpful of the Government to do this immediately before 1 July 2026 when the new tax is due to start.)

At the moment, the comparison between super vs non super has been quite simple for Division 296 tax. Because the amount of a capital gain has been calculated in the same way for all types of taxpayer (sale price less original cost), the only differences have been:

- the extent to which the gain is discounted before it's taxed, and
- the relevant tax rate.

To date, I've found this table quite a useful way of explaining things to clients:

Table 1: Current rules

	Tax on capital gains (allowing for discounting) before any changes		
	Super	**Own name**	**Company**
$0 - $2m (pension phase)	0%	Up to 23.5%	30%
$2m - $3m	10%		
$3m - $10m	20%		
$10m +	26.67%		

The super rates all allow for the fact that capital gains are eligible for a one-third discount. They also reflect the fact that different rates of tax apply for different 'slices' of an individual's super when we take Division 296 tax into account. The 26.67% figure in the table above, for example, is two-thirds of 40% (the total tax applied to earnings relating to the balance above $10 million – being 15% fund tax plus an extra 25% Division 296 tax).

The tax rate shown for an individual assumes that the people we're talking about (people with Division 296 tax problems), usually already have income in their own name. While that income alone might not be able to push them into the top marginal tax rate every single year, a large capital gain certainly would. Hence I've assumed capital gains, after discounting, would be taxed at 47% (and 23.5% shown in the table above is 47% x 50%).

In future, the tax rate (let's assume it's 47%) will be applied to a capital gain calculated in a totally different way (sale price *less* an inflation adjusted cost base). That means we can't just compare tax rates.

So how can we compare outcomes?

I suggest we come up with a specific metric for the comparison. I'd calculate this amount:

$$\frac{\text{Actual capital gains tax (different for each type of taxpayer)}}{\text{Full capital gain (sale proceeds less original cost)}}$$

This is a completely artificial number – it's not a tax rate, it's just a comparison tool. I've called it the comparison rate.

So how do we put this to use?

First, we need to consider the variables at play to make sure we compare genuinely different scenarios. Given the changes for individuals and trusts will mean the capital gain subject to tax is now worked out based on an inflation adjusted cost base, the level of inflation vs growth in the asset is obviously a key one.

If inflation is high and asset growth is low, for example, the new method will actually demand very low amounts of tax.

To use an extreme example – if inflation is 2.5% pa and the asset only grows by 3% pa, a $100,000 asset will have grown to around $134,400 in 10 years. The indexed cost base will have grown to $128,000. The

new approach will see only $6,400 ($134,400 - $128,000) subject to tax (a tax bill of $3,000 at the highest marginal rate of 47%). This is equivalent to a tax bill of 8.7% of the whole capital gain (ie, $3,000 is 8.7% of $34,400). This is my 'comparison rate' above – ie the rate we can compare to the super fund rates above.

In contrast, the same asset held in a super fund would have a $34,400 capital gain ($22,900 after discounting) and a tax bill of $9,200 if we assumed the highest possible tax rate of 40%. That results in a comparison rate of 26.67% - as per Table 1 above. In other words, the comparison rates for the various slices of super are still exactly as shown in Table 1. (This isn't actually how super fund taxes or Division 296 tax work. In real life, every $1 of capital gain is divided between the various slices but hold that thought for a moment.)

In contrast, if the asset grew at 8%, the tax bill if it's sold after being held personally would be more like $41,300 (which equates to a tax rate of around 35.6% on the capital gain of $115,900). Remember this isn't a real tax rate (this is still assumed to be 47% on the capital gain relative to an indexed cost base), it's just a way of expressing the tax paid in a way that makes it directly comparable to the rates in the table above.

The table below shows a range of 'comparison rates' – ie, the effective tax burden for a given mix of inflation and growth, expressed as a percentage of the overall growth. Note the equivalent rates for super don't change – they're still the same as Table 1.

Table 2: Comparison rates under different scenarios for assets held personally, top marginal tax rate of 47% applies

Timeframe (yrs)	Inflation 2.5% / Growth 3%	Inflation 2.5% / Growth 5%	Inflation 2.5% / Growth 8%	Inflation 2.5% / Growth 12%
5	8.2%	24.6%	33.8%	38.9%
10	8.7%	26.1%	35.6%	40.7%
15	9.2%	27.5%	37.3%	42.3%
20	9.8%	28.8%	38.8%	43.5%

What does this tell us?

- **Low growth**: personal ownership is more attractive. While the tax rate is still 47% in my calculations, the amount of capital gain it's applied to is so small that the tax rate "feels like" the figures in the first column (the comparison rates). Remember, if the CGT rules weren't changing, every figure in this table would be 23.5% (47% tax on 50% of the capital gain).
- **Moderate / high growth**: super becomes more attractive. It doesn't take much growth (as little as 5% relative to inflation of 2.5%) for the tax rate to feel much higher. Many of the comparison rates in the table above are higher than the top rate for super (26.67%).

What about the new minimum tax rate of 30% on capital gains?

This isn't relevant for my analysis here – I've assumed a tax rate of 47% in all scenarios (thanks to the individual's other income). While it's a highly relevant change for other people, I'm guessing those with very large amounts in super who might make big withdrawals to avoid Division 296 tax aren't paying tax at less than 30% on any of their income – let alone capital gains.

One more very important feature of CGT in super

When personal assets are sold and subject to capital gains tax, it's easy to focus on marginal rates because we can assume 'other income' will push the recipient into a higher rate of tax. (This is why the above focussed entirely on 47%)

It's not quite the same for super funds.

Because the tax rates depend on wealth not income, even when a member has more than $10 million in super, every dollar of income and discounted capital gains will be split into various parts – with some taxed at 0-15%, some at 30% and some at 40%.

Technically, then, the super fund tax rates applicable to a particular amount of capital gain will be lower than the ones shown in the table above. But in order to consider whether to leave money in super vs withdraw it, I usually feel the "marginal rate" approach is a more helpful proxy for the real impact of the choice to leave money in super or withdraw it.

My logic is something like this:

- Imagine someone with $15 million in super – who's wondering whether to withdraw $5 million (the part triggering the worst possible tax rate of 40% on some of their super earnings),
- If they leave it in super, one-third of all capital gains will be taxed at 40% (after discounting)
- If they take it out, none of their super fund's capital gains will be subject to 40%,
- In other words, leaving that $5 million in super lifts the tax paid on even capital gains that relates to the first $10 million,
- That means a more valid proxy for the impact of leaving that $5 million in super is to assume capital gains are taxed at 40% in working out the comparison rate. It will tend to overstate the tax cost of staying in super but it's still reasonable.

Of course, there is a lot an individual can do to better manage their tax liabilities in super but even using my basic arithmetic, the decisions facing those with large super balances just got harder!

Meg Heffron is the Managing Director of Heffron SMSF Solutions, a sponsor of Firstlinks. This is general information only and it does not constitute any recommendation or advice. It does not consider any personal circumstances and is based on an understanding of relevant rules and legislation at the time of writing.

For more articles and papers from Heffron, please click here.

Testamentary trusts post-budget: Estate planning, tax reform and the 'death tax' debate

Dr. Sylvia Villios

The 2026–27 Federal Budget has unsettled estate planning because it places two structural tax reforms beside a familiar succession-planning vehicle: the discretionary testamentary trust. From 1 July 2027, the first proposed measure would replace the 50 per cent CGT discount for individuals, trusts and

partnerships with cost base indexation and a 30 per cent minimum tax on net capital gains. From 1 July 2028, the second would impose a 30 per cent minimum tax on discretionary trust taxable income, with non-refundable credits for non-corporate beneficiaries and specified exclusions.

Those measures are proposed reforms, not enacted law. But Budget announcements can still affect present planning. Many executed wills contain discretionary testamentary trust clauses. If the will-maker is alive, the trust may not yet exist or hold property. On the Budget wording, those wills may sit outside any grandfathering for "discretionary testamentary trusts existing at announcement". Estate plans settled years ago may therefore require review, because the tax assumptions attached to a future trust may no longer hold.

Testamentary trusts: what they are and why they are used

A testamentary trust takes effect through a will or codicil and is funded because of death. It is not the deceased estate itself. The executor collects assets, pays debts and distributes or sets aside the residue; a testamentary trust may then continue as the longer-term holding vehicle.

The fixed/discretionary distinction is central because testamentary trusts often serve purposes beyond tax. In a fixed testamentary trust, beneficiaries have defined interests in income, capital or both. That structure may suit a will-maker who wants certainty of economic entitlement. A discretionary testamentary trust, by contrast, identifies a class of potential beneficiaries and gives the trustee power to decide who receives income or capital, when, and in what proportions. That discretion is often the mechanism through which the trust performs its protective, succession and governance functions.

It allows the trust to respond as children mature, needs change, or beneficiaries face insolvency, relationship breakdown, disability, addiction, exploitation risk or financial inexperience. It can delay outright control for a young adult, preserve a family farm or closely held business, manage competing claims between active and non-active family members, separate control from benefit, and impose governance around investment or business assets. In blended families, it may also support provision for a surviving spouse while preserving capital for children of an earlier relationship.

Those benefits are not absolute: family law, creditor access and trustee-control issues remain. But many testamentary trusts are not merely income-splitting devices. A tax regime that penalises discretion may therefore affect asset protection, business succession, family governance and intergenerational control, not only tax outcomes.

The tax settings that made them attractive

The current income tax settings are located in Division 6 of the Income Tax Assessment Act 1936 (Cth). Section 96 states that a trustee is not liable to tax except as the Act provides. Where an adult resident beneficiary is presently entitled to trust income, section 97 generally assesses that beneficiary on the corresponding share of net income. Trustee assessment can arise for legal disability, non-residence or absence of present entitlement.

For estate planning, the minor-beneficiary rules are especially important. Division 6AA generally discourages income splitting with minors by applying special rates to eligible unearned income. Section 102AG carves out specified "excepted trust income", including qualifying income of a trust estate that resulted from a will or codicil. The income is not tax-free; rather, the minor is taxed at ordinary rates. Since the 2019 tightening of Division 6AA, the minor-beneficiary concession for testamentary trusts

turns on tracing: income is concessionally taxed only to the extent it is produced by estate property, or by traceable accumulations and replacement assets, not merely because the trust arose under a will. That matters because trustees now need clear records of sale proceeds, reinvestments and mixed funds, and income from injected or untraceable assets can lose the concession and fall back into the harsher tax regime for minors.

CGT supplies another attraction. Death is generally not itself a CGT taxing point. Division 128 of the Income Tax Assessment Act 1997 (Cth) disregards a capital gain or loss from a CGT event happening because a taxpayer dies, and treats the legal personal representative or beneficiary as acquiring the asset on death. Later disposals can still produce taxable gains. Under current law, however, individuals and ordinary trusts can generally access the 50 per cent CGT discount where the asset has been held for at least 12 months, with Subdivision 115-C providing the trust capital-gain attribution machinery.

What the Budget proposes

The CGT proposal is broader than housing. Budget Paper No 2 states that, from 1 July 2027, the 50 per cent CGT discount would be replaced by cost base indexation for assets held for more than 12 months, with a 30 per cent minimum tax on net capital gains. It would apply to all CGT assets, including pre-1985 assets, held by individuals, trusts and partnerships. Transitional rules would preserve pre-commencement gains: the 50 per cent discount would continue for gains accrued before 1 July 2027, while indexation and the minimum tax would apply thereafter. Taxpayers could use a valuation or specified apportionment formula supported by ATO tools.

The discretionary trust proposal is separate. From 1 July 2028, trustees of discretionary trusts would pay a 30 per cent minimum tax on taxable income. Beneficiaries would still return trust income, but non-corporate beneficiaries would receive non-refundable credits. Fixed and widely held trusts, fixed testamentary trusts, complying superannuation funds, special disability trusts, deceased estates and charitable trusts are stated to be outside the measure. Excluded income would include primary production income, certain vulnerable-minor income, amounts subject to non-resident withholding tax and income from assets of discretionary testamentary trusts existing at announcement. Collection, franking-credit and rollover details remain to be designed.

A before and after example: distributions to children and low-rate beneficiaries

Assume a parent dies after 1 July 2028 and the will creates a discretionary testamentary trust for two minor grandchildren and two adult children. All four beneficiaries have no other taxable income. The trust receives $1 million of estate-sourced assets, later sells those assets for $1.6 million, and also derives $40,000 of ordinary income in the same year. CPI indexation over the holding period is assumed to be 12 per cent. The trustee distributes equally. The example ignores Medicare levy, offsets, franking credits, losses, streaming rules and future legislative refinements. It assumes the minors' shares are excepted trust income and uses the announced 14 per cent resident rate from 1 July 2027.

Calculation	Current law / before reform	Proposed law / after reform
Sale proceeds	$1,600,000	$1,600,000
Cost base before indexation	$1,000,000	$1,000,000
Indexed cost base	N/A	$1,120,000
Taxable capital gain	$300,000	$480,000
Other ordinary income	$40,000	$40,000
Trust taxable income	$340,000	$520,000
Economic income before tax	$640,000	$640,000

Under current law, the 50 per cent CGT discount reduces the taxable capital gain to $300,000. With $40,000 of ordinary income, trust taxable income is $340,000. If distributed equally, each beneficiary receives an economic share of $160,000 and a taxable income share of $85,000. Ignoring offsets and Medicare levy, each pays about $15,752; total family tax is about $63,008, leaving about $576,992 after tax.

Beneficiary	Taxable share	Approx tax	After-tax share
Minor grandchild 1	$85,000	$15,752	$144,248
Minor grandchild 2	$85,000	$15,752	$144,248
Adult child 1	$85,000	$15,752	$144,248
Adult child 2	$85,000	$15,752	$144,248
Total	**$340,000**	**$63,008**	**$576,992**

Under the proposed regime, the indexed cost base is $1.12 million, producing a real capital gain of $480,000 and a 30 per cent CGT floor of $144,000. The trust's taxable income is $520,000, so the discretionary trust floor is $156,000. If allocated equally, each beneficiary has taxable income of $130,000. Their ordinary tax before credits would be about $29,252 each, or $117,008 in total. If trustee credits are equal and non-refundable, each receives a $39,000 credit and loses the excess $9,748. The family group bears $156,000 of tax and the after-tax outcome falls to $484,000.

Beneficiary	Taxable share	Ordinary tax	Trustee credit	Lost credit	After-tax share
Minor grandchild 1	$130,000	$29,252	$39,000	$9,748	$121,000
Minor grandchild 2	$130,000	$29,252	$39,000	$9,748	$121,000
Adult child 1	$130,000	$29,252	$39,000	$9,748	$121,000
Adult child 2	$130,000	$29,252	$39,000	$9,748	$121,000
Total	**$520,000**	**$117,008**	**$156,000**	**$38,992**	**$484,000**

The two floors should not be added together. Pending final drafting, the capital gain must satisfy a capital-gains floor, while the discretionary trust as a whole may also need to satisfy a broader trust-income floor. Here, the broader $156,000 trust floor absorbs the $144,000 capital-gains floor. The

practical effect is still substantial: tax increases by about $92,992 because low-rate beneficiary outcomes are overridden by the non-refundable trustee-level credit design.

Estate planning implications: existing wills, non-tax objectives and fixed trusts

The grandfathering question is acute for people who have signed wills containing discretionary testamentary trust clauses but have not died. The Budget papers protect income from assets of discretionary testamentary trusts existing at announcement. A living person's will is not the same thing as an existing trust holding assets. If final legislation follows that wording, a testamentary trust arising only after a future death may be a new trust for these purposes. The will may remain valid, but its tax assumptions may have changed.

Nor is the practical response simply to 'convert to fixed'. As noted earlier, fixed interests may avoid the proposed minimum tax but can undermine the very protective, succession and governance functions for which discretion was chosen. Even for tax purposes, 'fixed' is not self-defining: existing concepts often turn on fixed entitlements to income and capital, and variation, appointment or amendment powers can complicate classification.

The reform may therefore force a choice between tax efficiency and fiduciary flexibility. Some families may accept a higher tax cost to retain discretion; others may consider fixed trusts, special disability trusts, direct gifts, superannuation nominations, companies or hybrid drafting. Legislative clarity is needed on whether grandfathering attaches to wills, trusts, assets, income streams, substituted property or realised gains, and how any vulnerable-beneficiary or minor-related exclusion will operate.

Is it a death tax?

'Death tax' is not a technical Commonwealth income tax category. In Australian debate it usually refers to an estate duty, inheritance tax or death duty: a tax imposed because wealth passes on death, either on the estate or on recipients. On that definition, the Budget proposals are not a classic death tax. They do not impose an upfront tax on the estate because a person has died. Division 128 remains the enacted CGT rule. The announced trust measure also excludes deceased estates.

That does not make the label politically irrelevant. A future discretionary testamentary trust exists only because someone has died. If income and gains from inherited property are taxed more heavily in that trust, families may experience the measure as part of the fiscal cost of intergenerational transfer. The more precise conclusion is narrower than the public debate sometimes suggests: this is not a tax on death as such, but it may be a higher tax on post-death income and gains from inherited wealth held through future discretionary testamentary trusts.

Conclusion: reform, rhetoric and the design questions ahead

Testamentary trusts have been used to protect vulnerable beneficiaries, preserve family assets, manage blended families, defer control and support business succession planning, as well as to obtain tax advantages. A regime that treats discretionary power as the problem may therefore compromise important non-tax functions, including continuity of family businesses, control of closely held assets and intergenerational governance, unless exclusions and credits are carefully designed.

The hard questions are legislative. Will grandfathering protect wills already signed but not yet activated, or only assets held by trusts on Budget night? How will substituted assets, reinvested proceeds and

borrowed funds be traced? How will fixed, discretionary and hybrid testamentary trusts be classified? Will non-refundable credits overtax child and low-rate beneficiaries in cases far removed from high-income avoidance? How will the two floors interact? Until draft legislation answers those questions, careful analysis requires a clear distinction between enacted law, announced policy and political characterisation. The real test of the reform will be whether it can curb tax-driven income splitting without collateral damage to the legitimate protective and succession-planning purposes for which testamentary trusts are often used.

Citation:

***Villios, Sylvia, (2026), Budget Forum 2026: Testamentary Trusts after the 2026-27 Budget: Estate Planning, Tax Reform and the "Death Tax" Debate**, Austaxpolicy: Tax and Transfer Policy Blog, 29 May 2026, Available from: https://www.austaxpolicy.com/testamentary-trusts-after-the-2026-27-budget-estate-planning-tax-reform-and-the-death-tax-debate/*

Dr. Sylvia Villios is an Associate Professor at the Adelaide Law School, University of Adelaide. Dr. Villios researches and teaches in taxation law, particularly focusing on questions about the operation of the Australian tax system, taxation policy, corporate taxation and the role, powers and accountability of the Commissioner of Taxation.

Income tax and bracket creep

Tony Dillon

As the budget fallout continues, Jim Chalmers gave the following reply to a post-budget question asking if the top marginal tax rate comes in at a salary that is too low:

"First of all, we have increased the top threshold in the tax system, we did that a couple of budgets ago. Secondly, we do understand how important it is that bracket creep be returned, and that's why we've done it 5 times in 3 different ways. We've increased the threshold, we've cut the rates, we've provided tax relief via a standard deduction, and now we're providing tax relief via a Working Australian Tax Offset."

The "five" tax cuts he was referring to were:

1. The Labor redesigned Stage 3 tax cuts from July 2024

- Included rate cuts and threshold changes.
- This was a modified Coalition Stage 3 tax cuts package. Changes:
  - proposed 30%: $45,000 to $200,000
  - became 30%: $45,000 to $135,000 and 37%: $135,000 to $190,000.
  - lowest marginal rate cut from 19% to 16%.
- The "we have increased the top threshold", which was from $180,000 to $190,000, was actually a decrease from the proposed Coalition $200,000.

2. A cut from July 2026

- 16% marginal rate to 15%. A maximum tax cut of $268 per annum.
- Announced in the 2025-26 budget.

3. A further cut from July 2027

- 15% marginal rate to 14%. A maximum tax cut of $268 per annum.
- Announced in the 2025-26 budget.

4. The $250 Working Australians Tax Offset (WATO)

- Begins 2027–28.
- Announced in the 2026-27 budget.
- A fixed offset, it is worth more to lower earners and its value erodes over time.

5. A $1,000 instant deduction for work-related expenses (announced in the 2026-27 Budget)

- Up from $300.
- Chalmers explicitly included this as an income tax cut mechanism.
- A bit of a stretch counting this as a tax cut when it is really a simplification or admin measure which may benefit some taxpayers but not all.

Including all announced Labor changes up to 2027-28, the following table compares average tax rates at selected salary levels, with what they would have been under the Coalition's Stage 3 changes.

	Labor 2027-28		**Coalition Stage 3**	
Salary	Tax payable	Ave tax rate	Tax payable	Ave tax rate
$100,000	$20,002	20.00%	$21,592	21.59%
$150,000	$36,052	24.03%	$36,592	24.39%
$200,000	$55,352	27.68%	$51,592	25.80%

Labor numbers include WATO

Note that under Labor, even after the "five" tax cuts, average tax rates are no better to worse than the Coalition for mid to high income earners. Lower income earners fare better with the Labor Stage 3 redesign which effectively redistributed high income tax cuts to lower incomes. Not forgetting that the Coalition had favoured lower incomes in its Stages 1 & 2 tax cuts, bringing the $100,000 average tax rate down from 24.50% to 22.97%.

The latest Labor tax cut in the form of the permanent $250 WATO goes some way towards winding back bracket creep since the Stage 3 tax cuts, but it is likely to be swamped by additional tax collected from nominal wage growth, even before it actually commences.

Bracket creep occurs when workers see an increase in their average tax rate because of nominal wage growth, regardless of real wage growth.

For example, consider a wage earner on $100,000. Current tax excluding the Medicare levy is $20,788, for an average tax rate of 20.79%. If their wages kept pace with inflation at say 3%, rising to $103,000,

tax payable becomes $21,688, or 21.05%. The average rate has increased because a greater proportion of the earner's salary is in the higher tax bracket.

Had the average tax rate not jumped, tax on the $103,000 would be $276 less, which is more than one year's WATO. For a salary going from $200,000 to $206,000, the equivalent increase in tax burden would be $1,016, or more than four years' WATO.

This prompts the question as to how effective tax relief in the form of offsets and irregular rate cuts compares to permanent protection against bracket creep, as proposed by the Coalition in its budget reply. It would do this by indexing tax brackets to the Consumer Price Index should it win government at the next election.

Continuing with the above example under an indexation model. The $18,200 tax free threshold would rise 3% to $18,746. The next threshold at $45,000 would increase to $46,350, and so on with the higher thresholds. Calculating tax payable according to the indexed thresholds:

16% x ($46,350 - $18,746) + 30% x ($103,000 - $46,350) = $21,412
(an average rate of 20.79% and unchanged from the average when salary was $100,000 a year prior)

That is, a system that indexes tax brackets protects workers from increased tax on nominal wage growth due to inflation.

This example also highlights the fact that bracket creep is broader than simply moving into a higher tax bracket because of increasing wages, which might be referred to as 'inter-bracket creep'. Because it also includes the increase in tax burden when the taxpayer moves deeper into the same marginal tax bracket, or 'intra-bracket creep'. The taxpayer is 'creeping' through the bracket.

Features that emerge from a tax schedule indexed to inflation include:

- If wage growth = threshold indexation rate, there is no bracket creep as average tax rates remain the same. You would always remain in the same marginal tax bracket.
- If wage growth > threshold indexation rate, there is real wage growth, average tax rates rise, and movement into a higher tax bracket is possible.
- If wage growth < threshold indexation rate, real wages retreat, average tax rates decline, and movement into a lower a tax bracket is possible. Could we call this 'bracket retreat'?

Therefore even with an indexed tax scale system, progressivity remains if real wage growth is positive. And under a Coalition model, bracket creep would reflect real wage growth, not nominal wage growth. That would be 'real tax creep'.

The Coalition indexation policy more specifically, would begin indexing the two lowest tax brackets to inflation from 2028-29, and the top two brackets from 2031-32. It would be instructive then to consider what happens over time with and without indexation, to thresholds and average tax rates.

We first compare what the Coalition's indexed thresholds in 2033-34 would be, five years after the commencement of indexation, with Labor's 2027-28 thresholds which are assumed to remain unchanged. Assuming indexation at an inflation rate of 3% p.a. would yield:

	Tax thresholds 2033-34	
Tax rate	**Labor**	**Coalition**
14%	$18,200	$21,099
30%	$45,000	$52,167
37%	$135,000	$143,222
45%	$190,000	$201,571

Now consider the same three salaries from Table 1, assuming 3% p.a. salary increases in the five years to 2033-34. Tax payable and average tax rates under Labor and the Coalition in 2033-34 would be:

	Labor 2033-34		Coalition 2033-34	
Salary	Tax payable	Ave tax rate	Tax payable	Ave tax rate
$115,927	$24,780	21.38%	$23,478	20.25%
$173,891	$44,892	25.82%	$43,013	24.74%
$231,855	$69,687	30.06%	$66,883	28.85%

Labor numbers include WATO

This exercise isolates the effect of bracket creep driven by inflation. It shows that while Labor average tax rates rise from their 2027-28 levels in Table 1, Coalition average tax rates remain broadly stable. In fact, with wage growth in line with inflation, Coalition rates would be equal to the Labor average tax rates in Table 1 if Labor's rates didn't include WATO, and if the introduction of the Coalition policy wasn't staggered.

If WATO remains fixed at $250, it will offset a fraction of the increased tax burden arising from bracket creep.

By 2033-34, WATO[1] would need to increase by **$1,302, $1,879, and $2,804** respectively for the three salaries (being the difference between Labor and Coalition tax payable in Table 3), to reduce Labor average rates to the Coalition levels.

And extending the exercise under the same assumptions for a further five years to 2038-39, the WATO[1] increase required to match Coalition policy would be **$3,103, $6,202, and $8,770** respectively for the three salaries analysed. These amounts represent many multiples of the current $250 on offer.

Granted that while in office, Labor may return some bracket creep with more tax cuts or by increasing WATO, this analysis demonstrates that the effects of bracket creep can be profound.

Meanwhile the discussion should focus less on the number and format of "tax cuts" made to date, and more on whether taxpayers are being adequately compensated for bracket creep over time.

[1] Increase in WATO required to neutralise inflation-induced bracket creep based on Labor 2027-28 tax settings.

2033-34			2038-39		
Salary	WATO increase required	Multiple 2027-28 WATO	Salary	WATO increase required	Multiple 2027-28 WATO
$115,927	$1,302	5.21	$134,392	$3,103	12.41
$173,891	$1,879	7.52	$201,587	$6,202	24.81
$231,855	$2,804	11.22	$268,783	$8,770	35.08

Tony Dillon is a freelance writer and former actuary. This article is general information and does not consider the circumstances of any investor.

The limits of a quality investing approach in Australia

VanEck

The quality factor is a defensive strategy designed to outperform during periods of heightened market volatility, lower inflation and lower growth regimes. The approach is reinforced by academic research and empirical findings.

When applied in international equity markets, quality strategies have delivered the characteristics intended: lower beta, shallower drawdowns, outperformance during market stress and defensive sector exposures. This will explore whether the quality factor can be replicated effectively in the Australian equity market.

The Australian equities market is one of the most concentrated by stock and sector. The universe is also small relative to global markets. The findings show that these nuances present challenges when assessing factor strategy efficacy.

Defining quality

Research in identifying systematic drivers of investment returns contributed to the emergence of factor indices, which track the performance of a set of companies with similar fundamentals, price behaviour, or a combination of both. This has led to the rise of factor-based ETFs which track these indices, while retaining transparency, liquidity and ease of trading for investors.

MSCI is a global leader in constructing factor index strategies. Through their research, they found companies with three fundamentals: high return on equity, stable year-on-year earnings growth and low financial leverage, exhibited quality 'defensive' characteristics[1].

This means typically falling less in a downturn and recovering to previous highs more quickly than the broader market. When implemented correctly, a quality strategy should exhibit:

- Long term risk-adjusted outperformance (positive information ratio)
- Beta at or below 1.0 relative to the benchmark (lower systematic risk)
- Outperformance during periods of market stress (the 'flight to quality' effect)
- Low exposure to cyclical sectors.

Testing the efficacy of the quality factor in Australia

There are two indices that attempt to capture the quality factor in the Australian market; Solactive Australia Quality Select index and MSCI Australia IMI Quality Index. These both select companies using MSCI-defined quality fundamentals. To test their efficacy, we apply the same tests used to qualify the international quality factor to assess whether these indices deliver the characteristics investors should expect in the Australian share market.

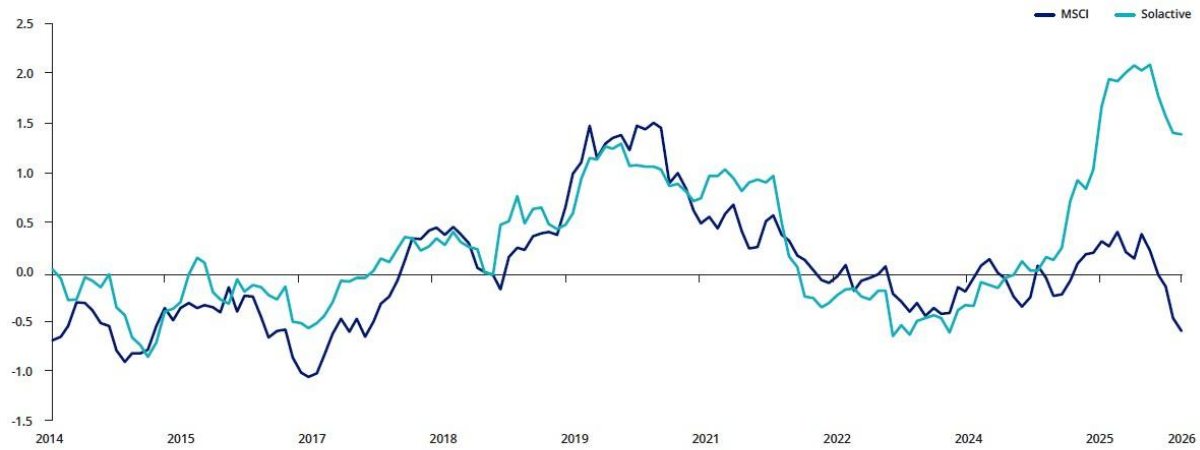
Mixed performance

Despite targeting the same quality fundamentals, the performance results are materially different. The Solactive strategy has outperformed but has not been consistent on a risk-adjusted basis. The rolling three-year information ratio has oscillated between positive and negative territory and has had prolonged periods below zero. The MSCI strategy has underperformed. The inconsistency suggests that any outperformance is episodic rather than structural.

Exhibit 1: Cumulative performance

Source: Morningstar, 31 Dec 2010 to 31 Mar 2026. MSCI as MSCI Australia IMI Quality Index, Solactive as Solactive Australia Quality Select index. You cannot invest in an index. Past performance is not indicative of future performance.

Exhibit 2: 36 month rolling information ratio

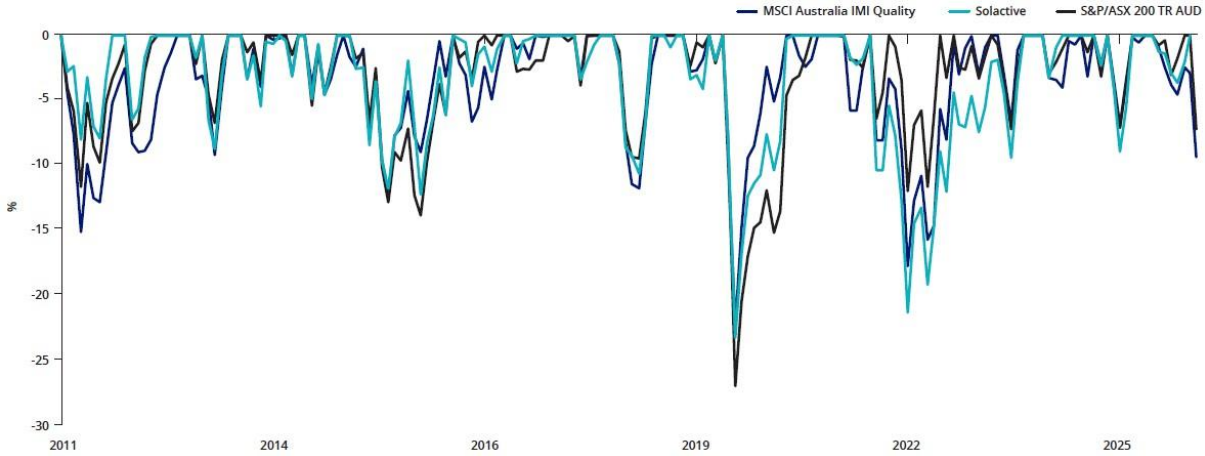


Source: Morningstar, 31 Dec 2010 to 31 Mar 2026. MSCI as MSCI Australia IMI Quality Index, Solactive as Solactive Australia Quality Select index.

Inconsistent drawdown protection

A quality strategy should typically provide consistent downside protection during market stress. But neither strategy has. During several stress event periods including the 2018 US/China trade war, 2024 yen carry trade and 2025 US liberation day events, the drawdown for both strategies was larger than the S&P/ASX 200.

Exhibit 3: Drawdown

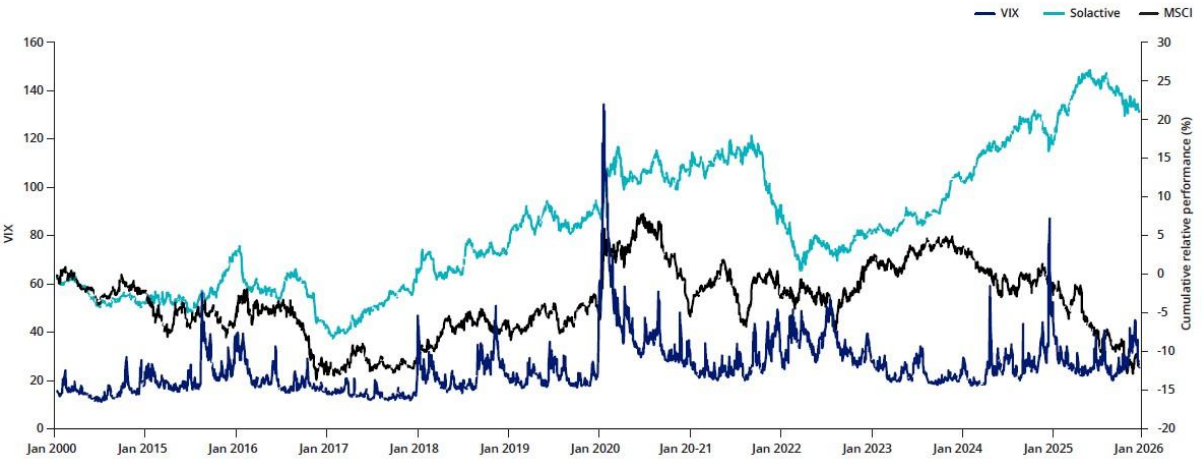


Source: Morningstar, 31 Dec 2010 to 31 Mar 2026. MSCI as MSCI Australia IMI Quality Index, Solactive as Solactive Australia Quality Select index.

No flight to quality during stress events

Neither strategy shows a definitive positive correlation between VIX spikes and the index's relative performance versus the S&P/ASX 200.

Exhibit 4: Cumulative relative performance versus VIX index

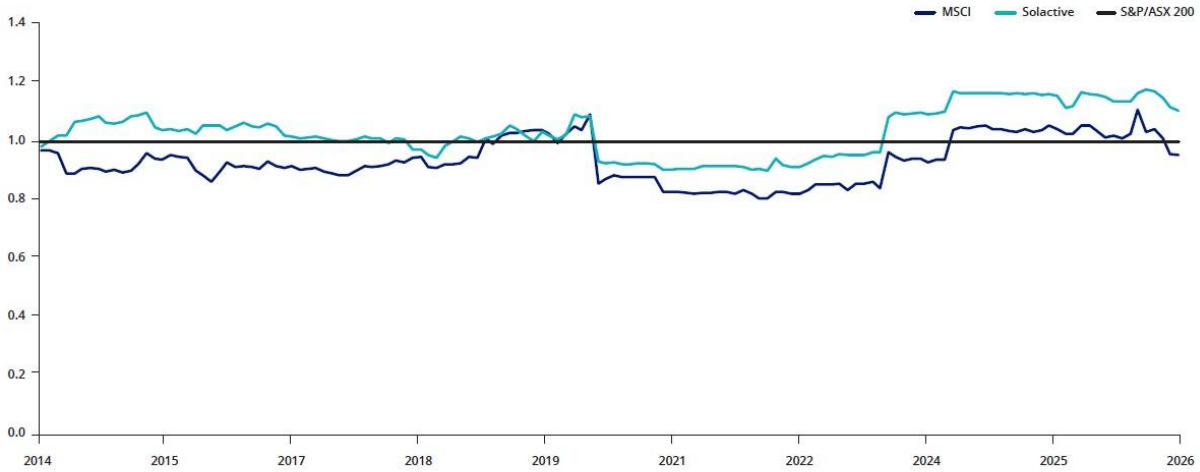


Source: Morningstar, 31 Dec 2010 to 31 Mar 2026. MSCI as MSCI Australia IMI Quality Index, Solactive as Solactive Australia Quality Select index. You cannot invest in an index. Past performance is not indicative of future performance.

Higher beta

The MSCI strategy has demonstrated a lower beta. However, the Solactive strategy's higher drawdowns and upside capture ratio has culminated in a rolling three-year beta persistently above 1.0 relative to the S&P/ASX 200, reaching levels above 1.15 in recent periods. This characteristic is more akin to the growth factor rather than quality.

Exhibit 5: 36 month rolling beta

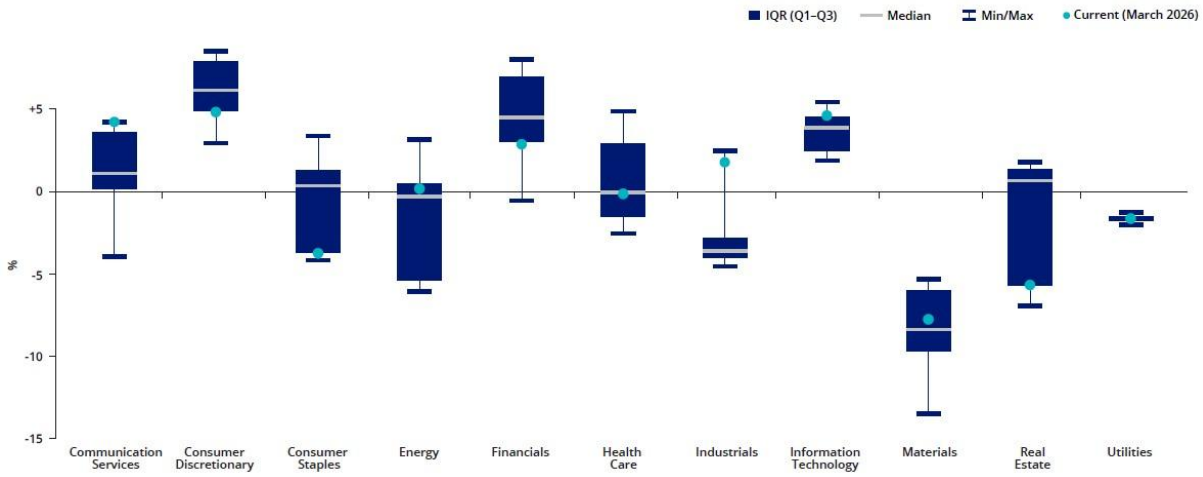


Source: Morningstar, 31 Dec 2010 to 31 Mar 2026. MSCI as MSCI Australia IMI Quality Index, Solactive as Solactive Australia Quality Select index.

High exposure to cyclical sectors

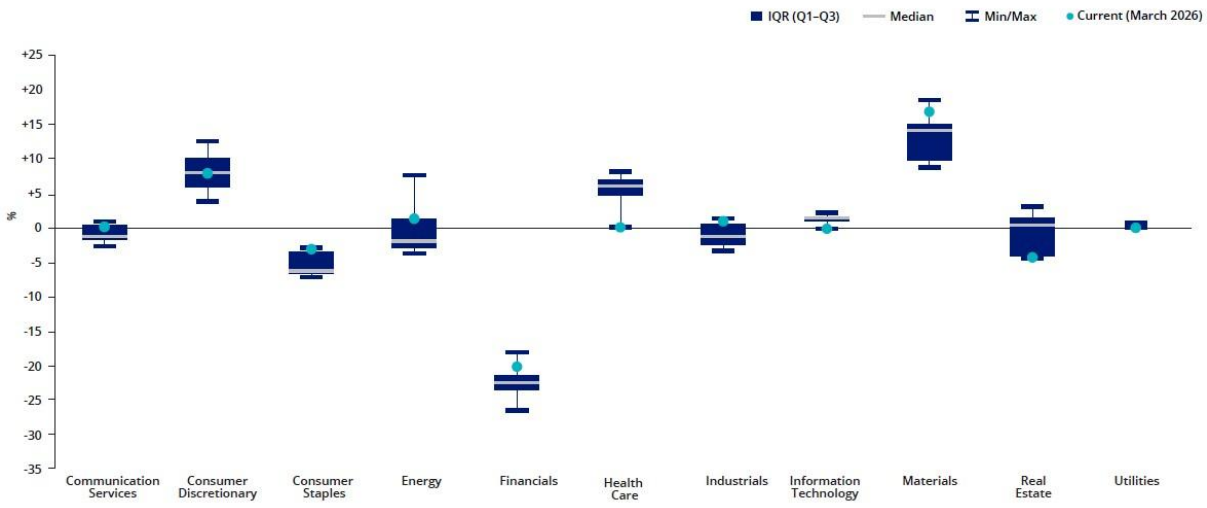
The sector composition tells a different story to what the international quality strategy delivered. MSCI and Solactive Australian quality strategies maintain a persistent overweight to financials and materials respectively and to consumer discretionary, which is cyclical. Both strategies have been underweight the defensive sector, consumer staples.

Exhibit 6: Solactive Sector Active Weight Distribution



Source: Morningstar, 30 Apr 2022 to 31 Mar 2026.

Exhibit 7: MSCI Sector Active Weight Distribution

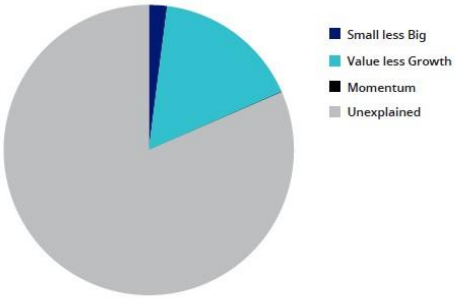


Source: Morningstar, 30 Apr 2022 to 31 Mar 2026.

Inconsistent factor exposure

We applied the same multi-linear regression analysis against market beta, size, growth, value and momentum. Regression analysis is a statistical method used to explain why something happened in relation to something else. The results showed that both strategies had a higher proportion of performance unexplained by factors. The Solactive strategy had a higher correlation to growth but, uncharacteristically, also a high correlation to smaller companies.

Exhibit 8: Solactive Performance contribution beyond market beta (R2)



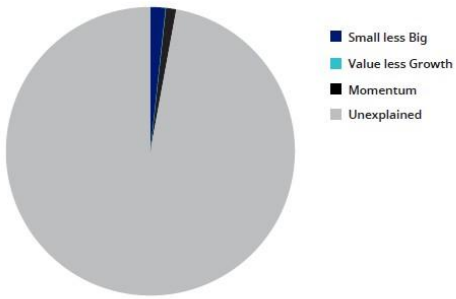
Source: Morningstar, VanEck, MSCI. 30 Apr 2022 to 31 Mar 2026.

Exhibit 9: Solactive Factor coefficient

Factor	Coefficient	P-Value
Market	1.14	0.0%
Small less Big	0.11	15.5%
Value less Growth	-0.15	2.7%
Momentum	0.02	87.7%

Source: Morningstar, VanEck, MSCI. 30 Apr 2022 to 31 Mar 2026.

Exhibit 10: MSCI Performance contribution beyond market beta (R2)



Source: Morningstar, VanEck, MSCI, 30 Apr 2022 to 31 Mar 2026.

Exhibit 11: MSCI Factor coefficient

Factor	Coefficient	P-Value
Market	0.96	0.0%
Small less Big	-0.09	43.7%
Value less Growth	-0.02	84.1%
Momentum	-0.09	55.1%

Source: Morningstar, VanEck, MSCI. 30 Apr 2022 to 31 Mar 2026.

These examples and metrics confirm, in our view, that a single quality factor approach in Australia does not behave as investors would expect.

Why can't the characteristics of international single factor strategies be replicated in Australian equities? It is worth, then, to consider the characteristics of the Australian equities market and the companies included.

The Australian concentration conundrum

The Australian indices' failure to deliver genuine quality characteristics is not unique. It is a structural problem inherent to the Australian equity market. In our research paper *The Australian Concentration Conundrum*, we showed that single factor strategies applied in Australian equities fail to achieve factor efficacy for three distinct reasons: high stock and sector concentration, and smaller starting universe. The annual rebalance of the Solactive index also poses a challenge.

Stock concentration

The S&P/ASX 200 is one of the most concentrated equity markets in the developed world. The top 10 stocks account for almost 50% of total exposure. This concentration limits the ability to construct a meaningfully differentiated factor portfolio.

Sector concentration

Financials and materials account for more than 50% of the S&P/ASX 200. These sectors behave differently to other sectors. Banks are highly leveraged and miners have volatile earnings, lacking quality characteristics. This means constructing a benchmark-aware strategy dilutes exposure to the quality factor.

Small starting universe

With only 200 stocks in the S&P/ASX 200, constructing a portfolio subset based on factor scores increases idiosyncratic stock exposure, limiting systematic factor exposure.

The annual rebalance amplifies the challenge

The Solactive strategy rebalances annually. An annual rebalance means the portfolio is therefore slow to respond to deteriorating factor signals. This is more prevalent given the more cyclical nature of the Australian equities market.

Conclusion

The quality factor in international equity markets has been an effective defensive strategy over the long term, delivering risk-adjusted outperformance, lower beta, shallower drawdowns and outperformance during periods of market stress, and lower inflation and growth regimes. However, when a single factor quality strategy is applied in Australian equities it fails to achieve factor efficacy for three reasons: stock concentration, sector concentration and a small starting universe.

This does not mean quality cannot be achieved in Australian equities, but rather that a pure single-factor quality approach is unlikely to be the most effective implementation in a concentrated, cyclical market such as Australia. The more effective path is an index that places quality characteristics at the centre of construction and uses complementary characteristics to manage the sector and concentration risks that undermine single factor approaches in this market. Identifying the most effective implementation approach is a priority within our ongoing research.

Investors seeking true quality equity exposure should look beyond the Australian market to international strategies where the universe offers the breadth and depth of companies to perform as intended.

For those seeking diversified exposure to Australian equities, alternative strategies such as a quality plus approach or equal weighting are worth considering.

1. Eugene L. Hung, R., et al (2015) Flight to Quality, Understanding Factor Investing.

VanEck is a sponsor of Firstlinks. The above excerpts have been adapted from VanEck's White Paper 'The limits of quality in Australia'. Any views expressed are opinions of the author at the time of writing and is not a recommendation to act.

Balancing opportunity and complexity

Neuberger Private Markets Team

As private markets continue to evolve, we explore three themes shaping the landscape today: how to navigate an expanding range of investment structures, where we see the private equity cycle heading into mid-2026 and what AI disruption means for private companies.

1. **Making Sense of an Expanding Market:** Private equity and private credit vehicles now come in myriad structures with various return and risk profiles. We compare key differences and take a closer look at flows.
2. **The Cycle: Fundraising, Exits and Distributions:** Top U.S. private equity sponsors continue to attract capital, portfolio backlogs may drive a rebound in exit activity and distributions seem to be recovering from their 2022 – 2023 lows. We examine what this means for investors.
3. **Decoding the "SaaSpocalypse":** We believe nimble private equity sponsors have the potential to capitalize on recent AI-driven market dislocations within the software sector.

The private markets landscape

There are now many ways to gain exposure to private markets, from traditional drawdown funds to a variety of evergreen vehicles. Strategies are more widely accessible, and more varied in how they are delivered.

In this expanding market, we believe investors and advisors should seek to understand key characteristics of different structures—including portfolio valuation frequencies, redemption terms, investor eligibility and more—when assessing suitability in meeting long-term objectives.

Key Differences Among Private Market Fund Structures

Less Liquid ◄ ► More Liquid

	Traditional Limited Partnerships	Evergreen Funds		
	Drawdown Fund	**Private Fund**	**Tender Offer Fund**	**Interval Fund**
Overview	Classic private markets structure, long-term orientation, liquidity lock-ups	Ongoing subscriptions and redemptions while preserving flexible format of traditional LP	Periodically invites investors to redeem at NAV; SEC-registered	Most accessible evergreen; SEC-registered
Subscription Frequency	Capital commitment during finite fundraising period, called over several years	Quarterly or monthly	Monthly	Daily
Valuation Frequency	Quarterly	Quarterly or monthly	Monthly	Daily
Redemption Terms	Long lock-ups followed by periodic distributions	Periodic, subject to gates	Quarterly, subject to a limit and board discretion	Required quarterly, subject to a limit
Typical Minimum Investment	$250,000+	$250,000+	$25,000+	$1,000+
Investor Eligibility	Qualified purchaser	Qualified purchaser	Accredited investor or qualified client	Accredited investor or below
U.S. Tax Reporting	K-1	K-1	1099	1099

The private credit landscape

Private credit connects borrowers directly with private capital, bypassing traditional banks and generating income for investors through contractual coupon payments. Loans can be structured with varying levels of seniority and collateralized by a borrower's cash flows, assets or projects.

Direct lending is what many investors think of when they hear "private credit". However, private credit is a fast-growing and increasingly heterogeneous market offering a range of strategies with complementary risk, return and borrower profiles.

Private Credit Encompasses a Broad Spectrum of Strategies, Each With Distinct Risk and Return Profiles

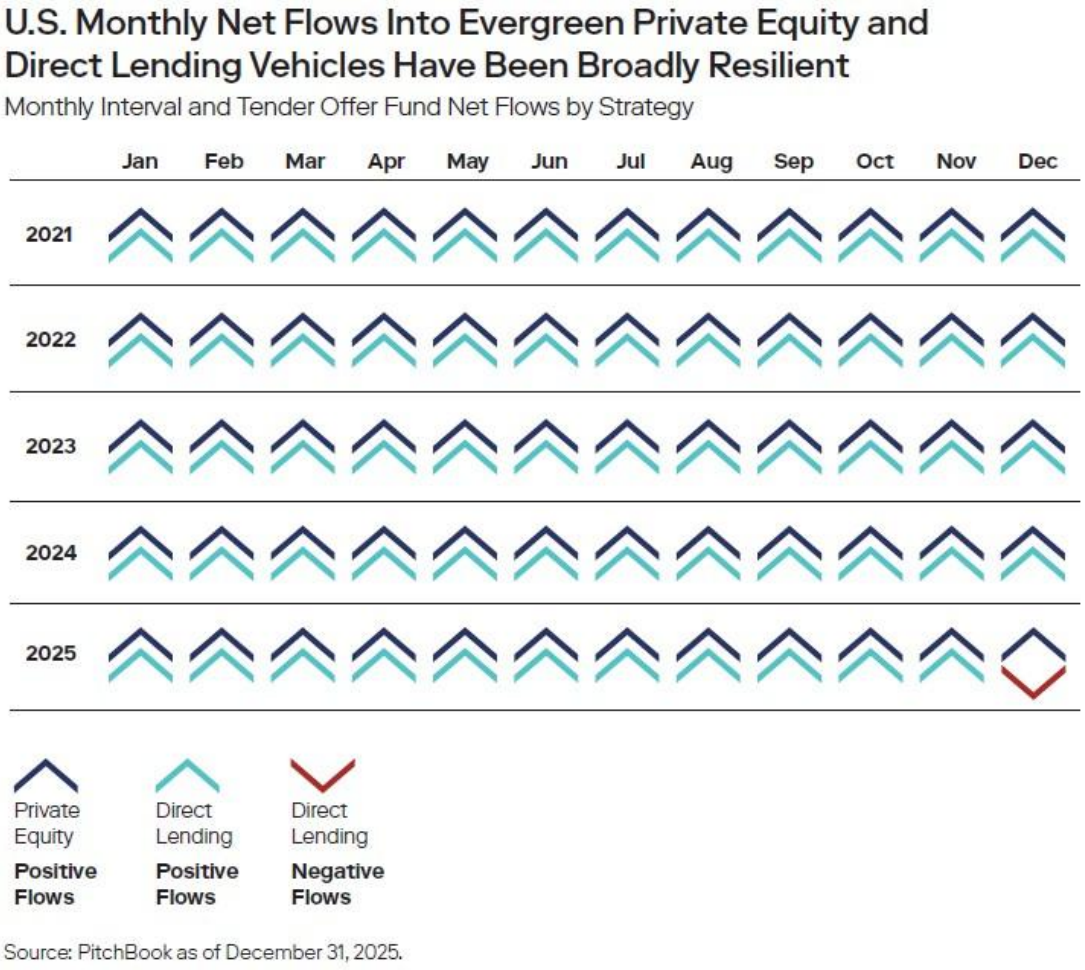
Strategy	Description	Position in Capital Stack	Typical Borrower	What Backs the Loan?	Duration	Biggest Risk to Understand
Direct Lending	Privately negotiated loans from non-bank lenders to corporate borrowers	Senior secured—first in right of repayment	Both sponsor and non-sponsor backed companies of all sizes, with the largest part of the market focused on middle market companies	Borrower's business and cash flows	5 – 7 years	Borrower unable to service interest or repay principal
Junior / Mezzanine Lending	Privately negotiated loans from non-bank lenders that are junior in the capital structure to first lien debt	Junior to senior debt, and senior to common equity	Mid-market companies doing buyouts	Borrower's business and cash flows	5 – 8 years	Borrower unable to service interest or repay principal
Asset-Based Finance	Lending against tangible or intangible assets	Typically, senior secured on a particular asset	Asset-heavy businesses; portfolio of assets; single assets	Physical assets: inventory, equipment, property; or Intangible assets: receivables, invoices, royalties, legal claims, leases	1 – 4 years (often revolving / amortizing)	Asset value erosion that impairs recovery value
Infrastructure Debt	Long-term lending to essential assets—toll roads, airports, pipelines, data centers, renewable energy	Senior secured—highly secured, long-term	Airports, utilities, energy projects, data centers	Infrastructure asset, government concessions, regulated revenues, long-term contracts	10 – 30 years	Asset value erosion; changes to regulatory or political regime
Private Residential Real Estate Debt	Privately originated, residential real estate credit assets focused on construction and transitional finance segments	First lien, senior secured	High credit quality residential real estate developers	Physical residential assets; single family and small balance multi-family homes	1 – 2 years	National / macro credit shock

Despite the headlines, evergreen funds continue to attract capital

Some media outlets have warned that recent redemptions at certain private credit evergreen funds could have a cascading effect. However, overall net fund flows into U.S. evergreen strategies have in fact been healthy.

Evergreen private equity strategies reported positive net flows for 60 consecutive months through December 31, 2025.

Evergreen direct lending strategies did nearly as well, reporting positive net flows in 59 out of 60 months during the same period.



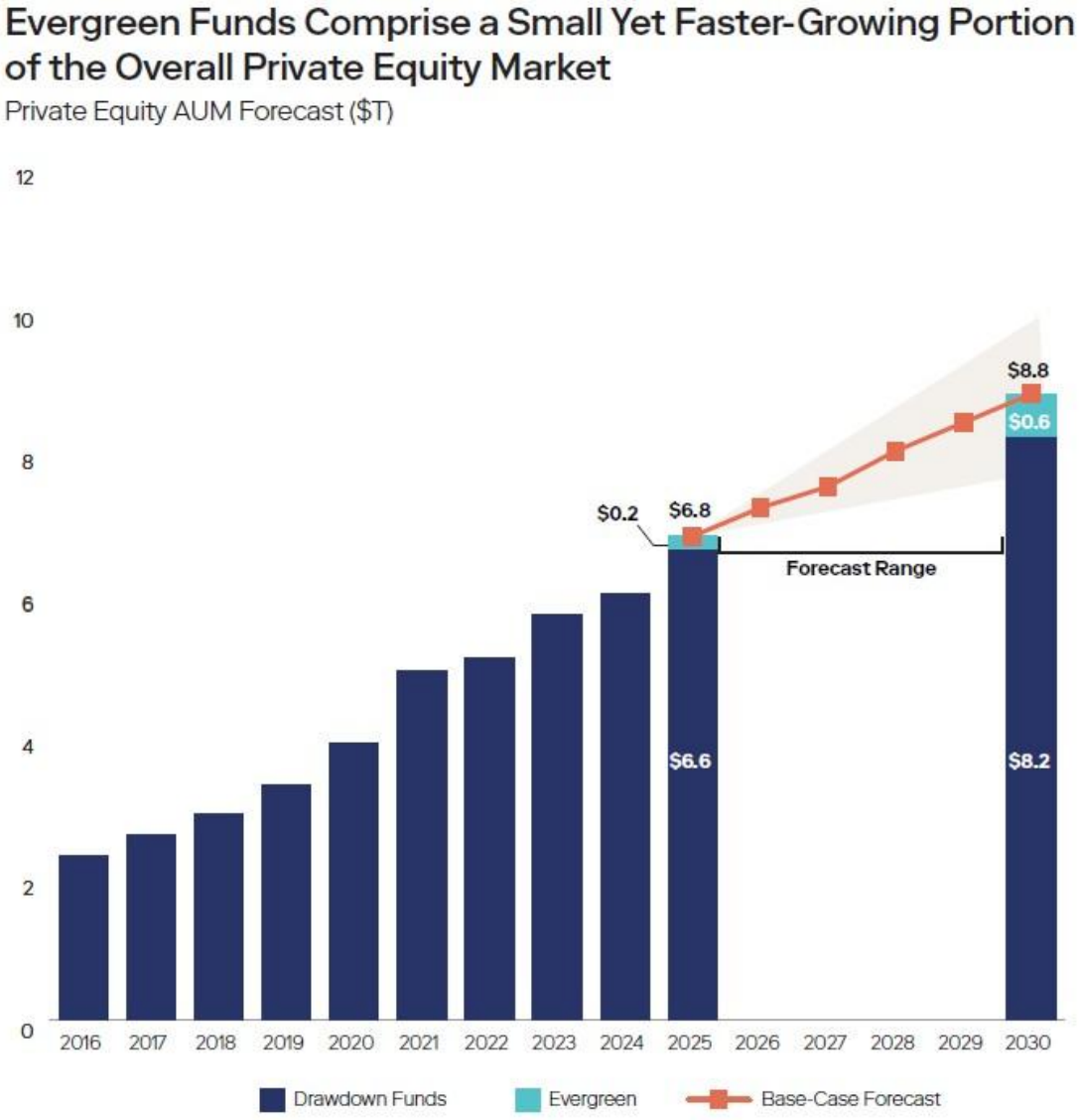
Source: PitchBook as of December 31, 2025.

Private equity fundraising: Evergreen AUM projected to grow

While evergreen vehicles are expected to expand at a faster rate than traditional drawdown funds, we believe they will likely still represent a relatively small share of the overall private equity market in the near term.

Meanwhile, private equity capital is increasingly concentrating among larger, more experienced managers. In 2025, firms commanding at least $5 billion in assets accounted for roughly half of all capital raised, the highest share since the 2008 financial crisis.[1]

We believe this trend is likely to persist as investors increasingly focus on manager selection, reinforcing the importance of access to well-capitalized, top-tier sponsors.



Source: PitchBook. Note: Historical data does not include evergreen structures. Forecasts were generated on April 17, 2026. Geography: Global.

Private equity exits: Conditions support continued activity in 2026

U.S. private equity exit activity—defined as the cash generated from initial public offerings, sales to strategic acquirers and sales to other private equity firms—gained momentum starting in 2024 and continued through 2025, with particularly strong activity in the second half of 2025.

Exits matter because they can help validate private equity valuations, and recent transactions indicate that companies are generally selling close to prior marks, supporting investor confidence and cash generation.

We believe the growing backlog of older private equity-backed companies suggests exit activity may remain elevated. Holding backlogs, measured by Net Asset Value (NAV), for buyout funds aged seven years or older reached $863 billion as of September 2025, highlighting growing pressure from investors wanting distributions.

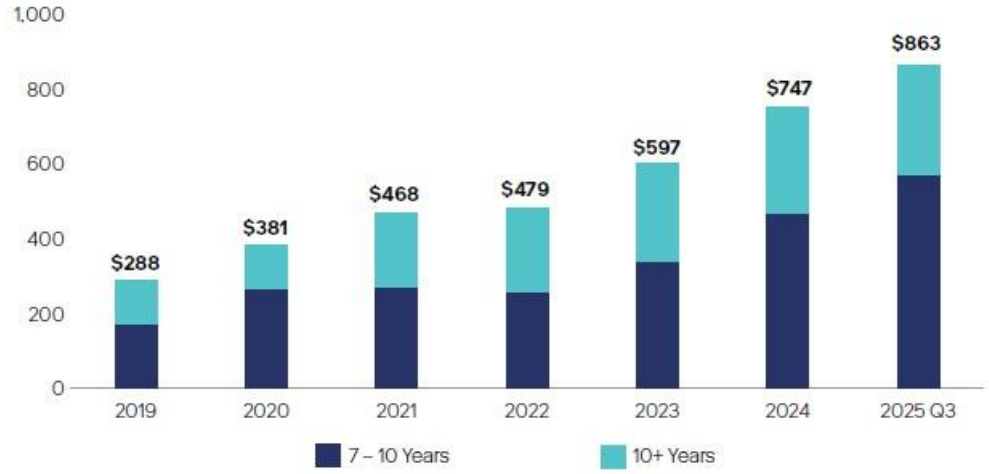
Exit Activity Has Continued to Increase Since 2023

U.S. Private Equity-Backed Exits

Source: PitchBook as of March 31, 2026. Note: The data for April 1, 2025 – March 31, 2026 is estimated.

Rising Backlogs of Older Buyout Funds Suggest Potential for Continued Exit Activity

U.S. Buyout Fund NAV by Select Age Bucket ($B)

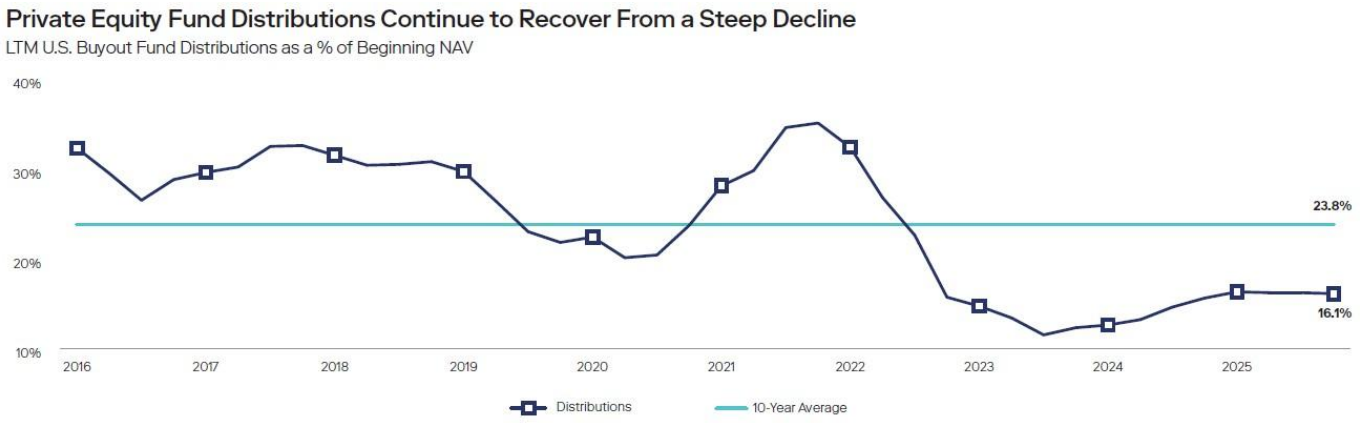


Source: PitchBook as of September 30, 2025, which is the latest available.

Private equity distributions: The recovery continues

Fundraising, exits and fund distributions are linked in a virtuous cycle: exits drive distributions, which can then be recycled into new private equity funds and investments.

After a sudden decrease in the second half of 2021, distributions from buyout firms to their investors began to recover near the end of 2023, yet still remain below historical averages. We expect a pickup in exit activity to flow through to fund distributions—an important link in the private equity capital cycle.

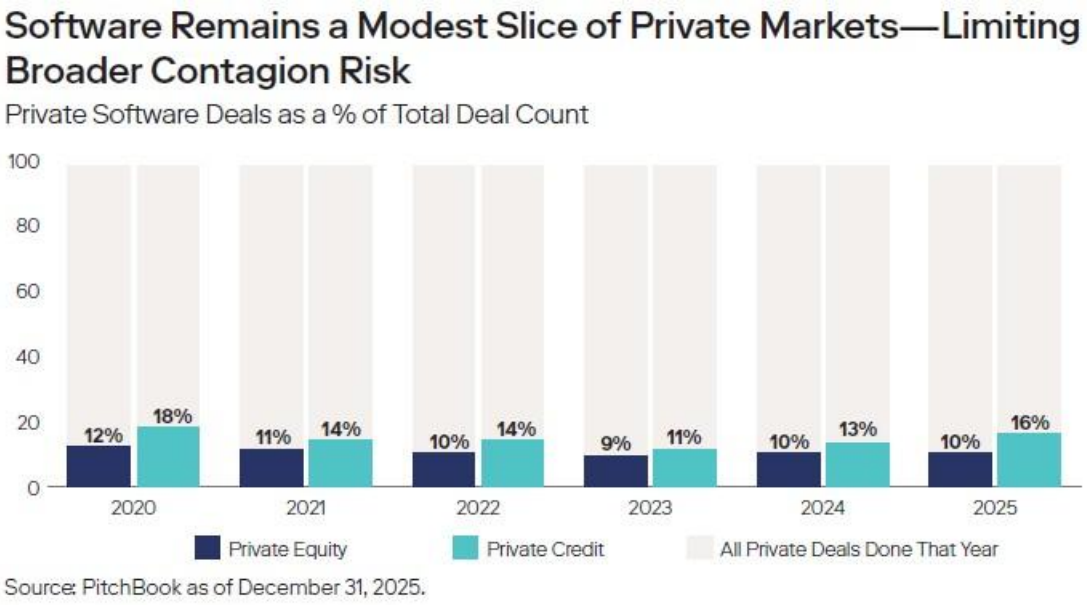


Source: PitchBook as of December 31, 2025, which is the latest available. Data includes interpolated fund returns.

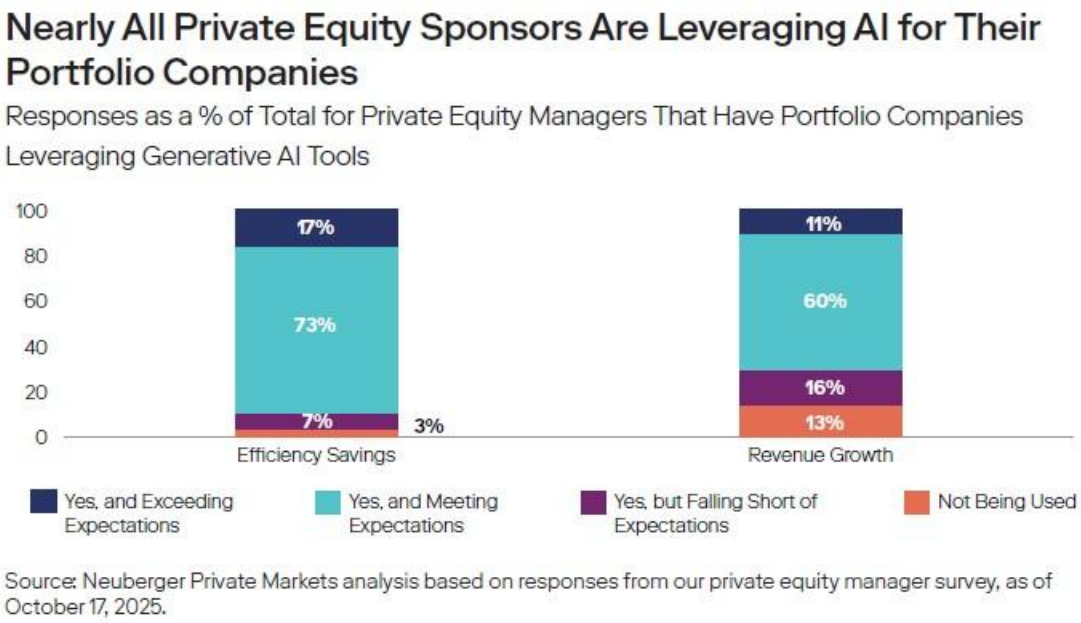
Decoding the "SaaSpocalypse"

The rise of agentic AI has contributed to an increase in redemption requests at certain private credit funds exposed to private software companies. However, the data suggests the impact may be more limited than initially feared. Software has represented less than 13% of all private equity deals annually from 2020 – 2025, with private credit exposure similarly accounting for 11% to 18% of annual deal activity.

While AI is undoubtedly disruptive, a recent Neuberger Private Markets survey shows that most private equity sponsors are already deploying the technology across their portfolios in practical, value-enhancing ways. This reinforces our view that AI-driven disruption is unlikely to be uniform—and that market dislocations may create opportunities for nimble sponsors and well-positioned lenders.



Source: PitchBook as of December 31, 2025.



[1] Source: PitchBook as of January 30, 2026.

Neuberger is a sponsor of Firstlinks. This material is provided for general and educational purposes only. This material should not be construed as investment advice or an offer or solicitation to buy or sell securities. You should consult your accountant, tax adviser and/or attorney for advice concerning your own circumstances.

For more articles and papers from Neuberger, click here.

Why strong returns matter as much as generosity

Chris Cuffe

It's that time of year again. June 30 is only weeks away, and for many Australians it brings the familiar mix of tax planning, investment decisions and, hopefully, some thought about charitable giving. I've written about this before for Firstlinks, and I make no apology for returning to it, as philanthropy benefits from repetition. The more people are reminded of the options available to them, the more likely they are to act.

Australian Philanthropic Services (APS) is a not-for-profit I founded more than a decade ago. Our APS Foundation is a public ancillary fund: a communal philanthropic structure in which individuals, families, and organisations can establish their own giving fund, typically within 24 hours and with an initial donation of $40,000 of more.

The mechanics of these structures are straightforward. You make a donation into your giving fund before June 30 and receive the tax deduction in this financial year (although if you prefer, the tax deduction can be spread over up to five years). The donated funds are pooled and invested by APS, with returns accumulating tax-free. You decide which eligible charities to support each year, giving you the space and time to make considered, thoughtful giving decisions.

I sometimes describe it to people as the superannuation model applied to giving. Just as many Australians pre-fund their retirement by contributing to super while they're earning, structured giving allows you to pre-fund your philanthropy, claim the deduction when your income is highest, then support the causes you care about over time, alongside your children and grandchildren if that's what you choose to do. The giving fund can be designed to last a lifetime, or many generations.

Why investment returns matter deeply to philanthropy

Giving is at its heart an altruistic endeavour, but I don't think we speak enough about how the investment returns generated within philanthropic structures directly determine how much money flows to charities over time. A desire to give matters, as does returns.

APS Foundation's General Portfolio, which I manage, has returned 10.1% per annum after fees since its inception in 2012, and is well diversified across the full investment spectrum. It distributes returns tax-free back to giving funds, compounding the capital available for charitable grants.

A giving fund that generates 10% per annum, distributes 4% to charity each year, and retains 6% for growth will roughly double in real terms over a decade. The charities supported in year 10 receive far more than those supported in year one. Strong returns benefit the investment portfolio and magnify the philanthropic impact for every year the fund operates. This is why, in my view, taking investment management seriously within a giving structure is key to its success.

This also speaks to an ongoing policy debate that is very much alive right now. The Government recently announced it would raise the minimum annual distribution rate for public ancillary funds from 4% to 6%. At APS, we understand the intention, but Treasury's own modelling shows that higher distribution rates maximise short-term flows to charities at the expense of long-term giving, meaning funds run down faster, and the capital compounding effect is diminished. The 5% rate applied to private ancillary funds (also soon to increase to 6%) has long represented a balance between giving now and preserving capital for future generations. Eroding that balance through regulatory settings that prioritise the short term is, in my view, a mistake. The best way to deliver more to charities is to grow both the number of givers and the pools of capital they contribute to. Despite this change, private and public ancillary funds remain enormously effective options to magnify your giving.

A word on making the most of EOFY

June 30 is, for most Australians, primarily a tax deadline. But it is also one of the most useful prompts in the financial calendar for thinking about giving, and the ideal time to act on charitable intentions that might otherwise drift into "I'll get to it next year."

For those who have had a strong financial year, be it a business sale, a bonus, a capital gain, or simply a good run in their investment portfolio, June presents an opportunity to claim a tax deduction now and take your time to decide which charities to support. That combination of immediacy and flexibility is, in my view, one of the most underappreciated tools in the Australian financial landscape.

This matters particularly for people facing a one-off income spike. Marginal tax rates being what they are in Australia, a deduction taken in a high-income year is worth considerably more than the same deduction taken in an ordinary year. Structured giving allows you to lock in that deduction at the right moment, while the capital continues to be invested and grow tax-free inside the giving fund giving you time to make thoughtful granting decisions each year.

The bigger picture

Australia is in the midst of the largest intergenerational wealth transfer in its history - estimates put it at around $5.4 trillion over the coming decades. A growing number of Australians are asking not just how to transfer wealth to the next generation, but what kind of legacy they want to leave. I firmly believe that philanthropy can be a bigger part of that answer.

APS has more than 1,100 clients who donated over $242 million to charity last financial year and have committed more than $2.9 billion to charity held in structures they support. We see families establishing giving funds not just for tax efficiency, but to involve their children and grandchildren in decisions about charitable priorities. Some of the most meaningful conversations happening in family wealth planning right now are about shared values, purpose, and the kind of future people want to help build.

For anyone who has had a strong financial year and hasn't yet thought about structured giving, now is the time to act.

Chris Cuffe is Portfolio Manager of the charitable trust Third Link Growth Fund and Chairman of Australian Philanthropic Services. Chris is involved with many other groups as a director, chairman and investment professional. This article is general information and does not consider the circumstances of any person. The views expressed are his own and they are not personal financial advice.

The most important investment decision you'll ever make

Simonelle Mody

I used to believe the process of investing was all about selecting the right stocks, locking in a great return, rinse and repeat. Stock picking intuitively aligns with the way many people imagine investing works. While it might be easy to blame the glamour of Scorsese's Wolf of Wall St, most financial commentary tends to focus on individual companies and quirky market personalities. It's certainly more entertaining to read about what Elon Musk has said this week than to dive into the merits of Modern Portfolio Theory.

In reality, the most important investment decision you'll ever make probably won't be that speculative small cap bet or the hot stock tip your neighbour was talking about. It is far more fundamental than that.

Your asset allocation decisions will always be the biggest driver of long-term returns, and therefore your investment success. One of the most cited studies in modern investing is *Determinants of Portfolio Performance* by Brinson, Singer, and Beebower (1991). The research estimates that asset allocation explains 94% of a portfolio's return variability over time. Your mix of growth and defensive assets will dictate not only long-term returns, but also how you align your investment strategy to your goals and manage risk appropriately.

Why it matters

If investors could look into a crystal ball and be told which asset class was going to outperform each year, asset allocation decisions would be easy. But this is far from reality. There is a degree of randomness inherent in determining which assets perform best on a short-term basis.

The chart below demonstrates how difficult it is to consistently pick winners and losers. Allocating capital across a range of asset classes helps investors avoid anchoring their portfolio to a single narrative.

Source: Vanguard Asset Class Tool.

But most retail investors don't ponder correlation metrics over breakfast. They're focusing on outcomes like purchasing a home, generating a steady income or retiring comfortably. The fuss over asset allocation is justified. It is the primary mechanism that turns goals into a sound investment strategy.

For instance, a long-term goal e.g. a comfortable retirement with decades to run, means an investor may allocate higher exposure to growth assets. On the other hand, if an investor is looking to purchase a home in the next three years, they may favour a larger allocation to defensive assets to manage risk and achieve this goal.

The subtle differences

Many casual investors demonstrate lower levels of engagement with their asset allocations, especially when it comes to super. For example, AustralianSuper currently has over 90% of members in the balanced option, which targets a 75/25 split between growth and defensive assets. Given the average age of an AustralianSuper member is around 42, one could argue that a significant portion of investors may be positioned more conservatively than their time horizon requires.

Even small differences in allocation can compound into surprisingly large gaps over time. No allocation is inherently 'wrong', but it may not be optimal for every investor and the cost of being misaligned can accumulate over decades.

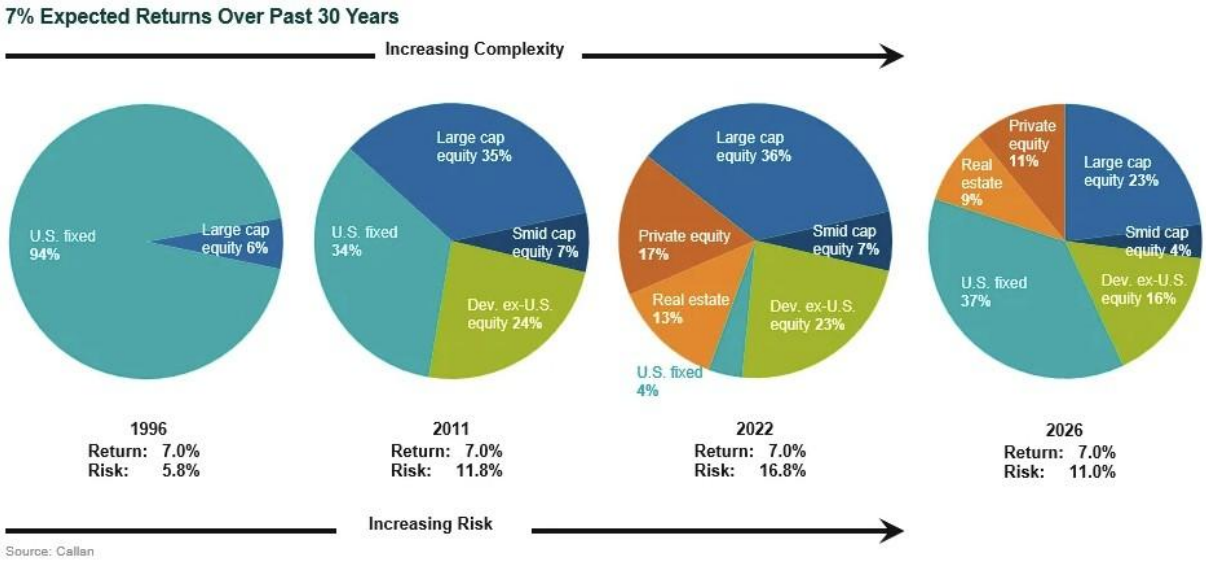
The key point is that your allocation should be an intentional decision that reflects your goals, risk capacity and ability to withstand short-term fluctuations. Most investors will need some level of equity allocation to achieve their long-term goals, but determining the 'right' level will be highly personal.

The part investors often miss

There is no perfect formula to determine your asset allocation. Traditional frameworks can provide useful guidance, but they cannot fully capture the personal nature of the decision.

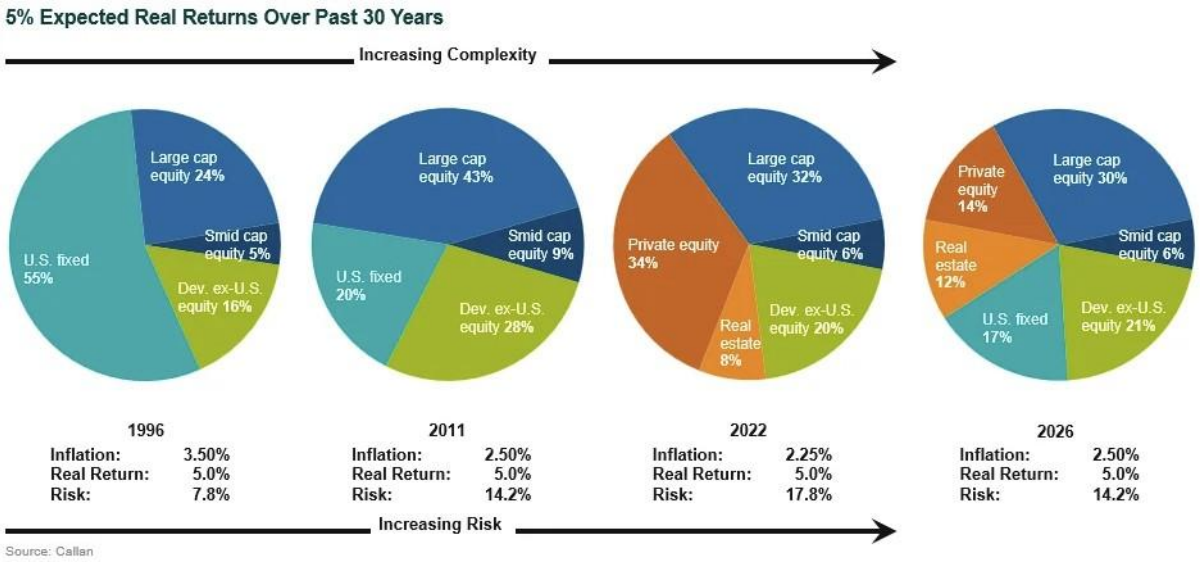
An overlooked implication is that market dynamics are constantly shifting. The risk profile of asset classes and the correlations between them are not static. But that doesn't mean investors should attempt to time the market. Instead, it highlights the importance of understanding how the landscape has evolved.

I believe The Callan Institute illustrates this point well. Their research suggests that investors are required to take on almost twice the risk they did 30 years ago to achieve a nominal 7% expected return in the next decade.



Source: The Callan Institute. 2026.

Although, the report notes that the mid-90s were uniquely characterised by not only higher fixed income yields but also higher inflation. To adjust for this, researchers looked at what it would take to earn a 5% real return instead. The figure below shows that the conclusion remains similar.



Source: The Callan Institute. 2026.

Market dynamics don't just change over the long term either. The environment has shifted even in the last few years. Achieving a 7% expected return is now far more feasible than it was in 2022. Back then, an investor would have needed to allocate ~96% of their portfolio to growth assets to reach 7%. In 2026, Callan believes over a third of a portfolio can sit in fixed income whilst still maintaining the same expected return.

The broader takeaway is that the mix of assets required to meet return objectives evolves over time. Investors today face an increasingly complex landscape. It is difficult to set an asset allocation and expect it to remain appropriate in the long term.

Simonelle Mody is an Investment Specialist at Morningstar Australia. She writes for retail investors and financial advisers on topics spanning portfolio construction, market trends, ETFs and investor behaviour.