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Editorial

I like to consider myself relatively fearless. Sharks and snakes aside, a little market volatility never hurt anyone, nor do the headlines that periodically declare the end of capitalism as we know it.

I'm also a 'passive' investor by temperament. A few broad-based index funds, a modest satellite allocation here and there. It's the approach I settled on after a few years of underperforming the market by picking individual companies.

A few months ago, I was sitting at an investment convention, as engaged as one can be after a long day of conference-hall haze. The panelists were deep in discussion on Australian equities while I was nursing a lukewarm coffee. Then one speaker said something that snapped me out of my stupor.

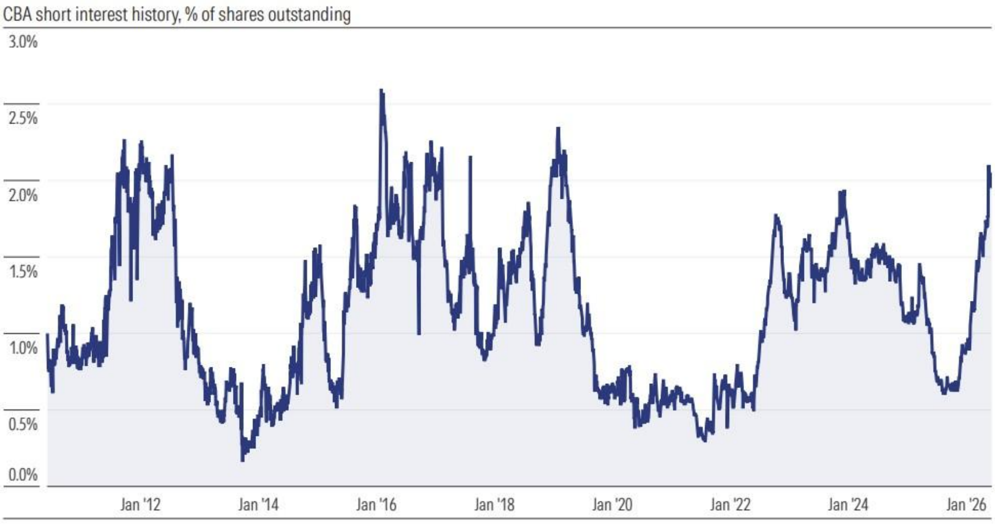
Almost a third of the ASX is a cyclical bet on Chinese demand and our second biggest company is an exploit of intergenerational inequity, acting as the intermediary between those who have capital and those who need it.

It was the kind of observation that everyone is vaguely, almost unconsciously aware of, yet we rarely hear articulated so plainly. Of course, we know not to take these words as gospel (*and I have my own reservations about the recent enthusiasm for the term 'intergenerational inequity'),* but I can appreciate the blunt framing.

Many passive investors like to imagine we've opted out of stock-picking, that we've somehow been absolved of that responsibility. But every index represents a set of active decisions about which risks to accept, which sectors to overweight and ultimately, which narratives to believe.

A growing tension

Concerns about the increasing concentration of the ASX are not new, however the current dynamics reveal a more notable conflict. On one side, several hedge funds are positioning against the major banks citing a mix of macro weakness, stalling property prices and declining credit growth. On the other hand, passive flows have been driving capital into the largest, most richly valued companies, essentially reinforcing the dominance of the same names. The market has effectively split.



Source: Australian Securities and Investments Commission, Morningstar.

Over the past decade, Australia’s market valuation has expanded meaningfully, yet earnings growth has been modest. The US has delivered robust growth driven by technology and productivity gains. By contrast, the ASX has leaned heavily on commodity cycles and the near-mythic stability of residential mortgages.

Company	Ticker	Annual return	Annual net income growth
Commonwealth Bank	CBA	10.31%	1.11%
Westpac	WBC	5.17%	-1.46%
ANZ Group	ANZ	7.37%	-2.38%
National Australia Bank	NAB	7.23%	0,85%
Telstra	TLS	2.77%	-6.45%
BHP Group	BHP	17.19%	16.79%
CSL	CSL	1.84%	7.60%
Wesfarmers	WES	11.60%	1.83%
Woolworths Group	WOW	9.43%	-7.70%
Scentre Group	SCG	1.81%	-4.12%

Performance of the Ten Largest ASX Companies in 2016, Annual Returns and Net Income Growth Over the Past Decade. Source: Australian shares are falling behind the world.

Theoretically, when key drivers of economic growth such as housing begin to slow, earnings should eventually slow with them. Yet we haven't seen prices adjust in the same way. I think we’re well past the point where passive investing can be described as merely *reflecting* the market. There is a credible argument that it now *shapes* the market. Even the idea that 'the market' is a neutral arbiter of value, becomes less convincing when a large portion of flows are valuation-agnostic.

For some investors, this dislocation represents an immovable object. Perhaps a structural feature of modern markets that must simply be accepted. For others, the widening gap between fundamentals and index-driven pricing may present opportunity.

Where to from here?

For many investors, the ASX has been a faithful companion for decades. The banks, miners and the industrials that dominate the index have delivered income, stability and a sense of familiarity. But the country is shifting. The slow reshaping of Australia's economic foundations has forced many to lift their gaze.

What is harder to ignore is the growing influence of passive flows in setting the prices of the heavy-weights. When money pours into index funds irrespective of valuation, fundamentals inevitably appear to play a smaller role. As a 'passive' investor myself, I find this dynamic increasingly difficult to dismiss.

Simonelle Mody

Also in this week's edition...

Treasury has confirmed the tax exemption for discretionary testamentary trusts. **Rachael Rofe** explores two conditions that could still leave some wills on the wrong side of the exemption.

David Tuckwell from ETFShares examines how ASX investors should think about the long-term case for lithium after its recent sell off.

Ethan Xing from Zenith models how fund turnover could become a key driver of after-tax returns under the proposed CGT reforms.

Superannuation was built around assumptions that no longer hold. **Adam Nettheim** discusses the key challenges he believes policymakers and super funds need to address.

Retirement looks different for everyone. **Dr Joanne Earl** shares an update four months into her journey.

Australian investors have rarely been asked to navigate so much at once. **Arian Neiron** from VanEck argues that the Federal Budget has exposed why quality investing needs a rethink in Australia.

The economics behind AI spending look increasingly questionable. Harris Kupperman from Praetorian Capital explains why he thinks today's AI boom has striking parallels with the shale bust.

Curated by Simonelle Mody and Leisa Bell

Does your will qualify for the discretionary testamentary trust exemption?

Rachael Rofe

Last week, Treasury released its consultation paper on the proposed 30% minimum tax on discretionary trusts. It runs to 17 discussion questions and gives the country three weeks to respond, which tells you something about how settled the design really is.

But inside the detail is confirmation of something many families have been anxious about since Budget night. The intended direction is now clear: income from genuine discretionary testamentary trusts will be exempt, subject to two proposed conditions.

Good news, with a catch. Two catches, actually.

The proposed tax

In the May Budget, the Government proposed that from 1 July 2028, trustees of discretionary trusts will pay a minimum tax of 30% on the trust's taxable income.

Beneficiaries other than companies will generally receive a non-refundable offset for their share of the tax paid by the trustee. They remain assessed under the ordinary rules. If their income-tax liability exceeds the offset, they pay the balance. If it is lower, the unused offset is lost. It cannot be refunded, carried forward or used against the Medicare levy. It is a floor, not a ceiling.

The target of the measure is income splitting: directing trust income to beneficiaries on low tax rates so the family pays less overall than if one person had earned all of the income directly. Treasury's own example involves a trust splitting $200,000 four ways and saving about $35,000 in tax.

There is no grandfathering. Existing family trusts are caught.

The Budget proposed to exclude income from assets of testamentary trusts already in existence on Budget night.

A testamentary trust explained

A testamentary trust is a trust written into a person's will. It does not exist while they are alive. It comes into existence when they die, at which point the executor moves the inheritance into the trust rather than handing it to the beneficiaries directly.

Their value has made them the cornerstone of modern estate planning. Families use them for three main reasons.

1. Protection: assets held in a properly designed testamentary trust may be better protected from a beneficiary's bankruptcy, business and creditor risks than assets inherited outright. They may also offer protection following relationship breakdown, although the family-law outcome depends heavily on the terms of the trust, who controls it and the particular circumstances. The same structure protects beneficiaries who cannot safely manage a lump sum themselves, whether through disability, addiction, mental illness or vulnerability to the people around them.
2. Flexibility: the trustee can distribute income and capital among family members as circumstances change over decades.
3. And tax: minor children can be taxed at ordinary adult rates, rather than at the penalty rates generally applying to unearned income received by minors. This means up to $22,866 can potentially be distributed to a minor child tax free every year. Compound that. A testamentary trust benefiting three grandchildren with no other income can distribute close to $69,000 a year with no tax paid by anyone, year after year, through their entire childhoods. There is no other structure in Australian tax law that does this, and Parliament built it on purpose.

That concession has a logic to it. A child receiving income from a testamentary trust is often a child whose parent or grandparent has died. Parliament decided long ago that children should not pay penalty rates on the income that replaced their provider.

Published ATO-based estimates put the number of active testamentary trusts at a little over 10,000, roughly 1% of the trusts operating in Australia. But that figure says nothing about the much larger number sitting in wills, not yet born.

Those trusts are unknowable because they remain invisible until someone dies. And since they do not exist until death, none of those future trusts were "existing at announcement".

Under the Budget wording, every one of them would have been caught. A trust created to manage a dead parent's estate for their children was to be taxed as if it were an income-splitting scheme run by the living.

You can see the problem. Eventually, so did the Government.

The testamentary trust exemption and the catches

After two months of pressure, the Government announced on 18 June that genuine discretionary testamentary trusts would be exempt, including future ones.

The 8 July paper confirms the proposed design and puts qualifying testamentary trusts on the exempt list alongside deceased estates, charitable trusts, fixed trusts, widely held trusts and superannuation funds.

The first catch concerns where the income comes from.

Income generated from assets of the deceased estate will be exempt. Income from unrelated assets injected or added to the trust afterwards will not.

The approach is familiar. Since 2019, minors have received adult rates only on qualifying income related to and accumulated from deceased-estate assets. The proposed condition applies the same tracing principle to the minimum-tax exemption.

The second catch reaches into wills being drafted right now, and into wills signed long before anyone had heard of this measure.

For testamentary trusts established from 1 July 2028, the exemption is only available where the trust benefits individuals and income-tax-exempt entities such as charities. Not ordinary companies. Not taxable trusts.

Why that matters today

A testamentary trust is established on death, not on the day the will is signed. Most people holding wills today will still be alive on 1 July 2028, which means their trusts will be established under the new rule, drafted under the old assumptions.

Most testamentary trusts are drafted with deliberately wide beneficiary classes: the primary beneficiary (the person you ultimately want to benefit from your estate), their spouse, children, grandchildren, related trusts and related companies. That width was a sensible design for a future no one could map.

The paper does not say whether the mere presence of an ordinary company or taxable trust in the beneficiary class will be fatal, or whether the condition will turn on who actually receives a benefit.

So what should be done while the legislation is still being written?

For anyone making or updating a will now, the beneficiary class needs to be considered before signing, not after the legislation passes.

One conservative approach is to restrict it to individuals and income-tax-exempt entities. Another is to include a conditional restriction preventing any other entity from benefiting where its eligibility or an actual distribution would jeopardise the exemption.

For many families, distributions will in practice go to a spouse, children and grandchildren. If a corporate beneficiary or related trust is central to your plan, that needs specific advice. For the vast majority of everyone else, the power is cheaply surrendered for certainty.

What is no longer prudent is to leave a wide beneficiary class in place without considering the issue.

For anyone with an existing will containing a testamentary trust, the same logic applies. Now is the time to have it reviewed.

The silver lining

One real benefit has come out of this messy episode.

Testamentary trusts spent the winter in the papers and the Senate. People who had never heard of them are now asking their advisers a very good question: is there a trust in my will, and should there be?

For many families, the answer is yes.

If your children or grandchildren stand to inherit meaningful assets, if any beneficiary runs a business, works in a litigious profession, has a fragile marriage or is simply young or vulnerable, a testamentary trust deserves serious consideration.

The Government has now confirmed, in writing, that these structures are legitimate estate planning vehicles and will sit outside the new tax. A two-month political brawl is an odd way to run a public education campaign, but it worked.

What happens next

The paper is not law. Treasury expressly says that the proposed principles have not yet received Government approval.

None of that is a reason to wait. A will often takes effect on a date you do not choose, and a review now costs nothing if the final legislation turns out to be softer. Waiting has no upside. The only scenario in which waiting matters is the one where you did not get to update the will in time.

Submissions close on 31 July.

The direction, though, is set. The wills we sign today should be drafted with the proposed rule in view. How much flexibility to preserve is a judgment for each family. Whether to look at the question is not.

Check whether your will contains a testamentary trust. If it does, ask whether the beneficiary class needs narrowing. If it does not, ask whether it should.

The trust may not exist until you die. Whether it qualifies may be decided by the words you sign today.

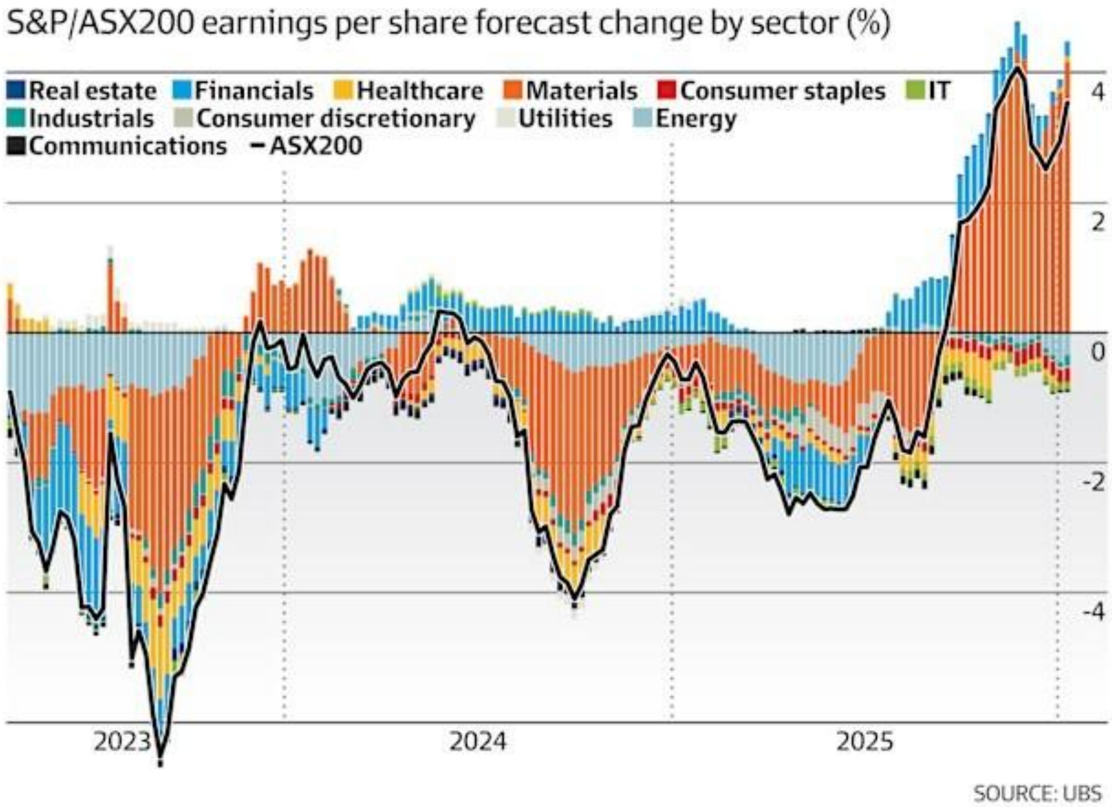
Rachael Rofe is an estate planning lawyer and philanthropic giving expert, and the founder of Rofe + Counsel. She helps families and their advisers structure wealth transfer across life, death and legacy.

Lithium's latest drop and what it means for ASX investors

David Tuckwell

Lithium carbonate fell roughly 20% in June – in another bout of volatility that has come to define the battery metal.

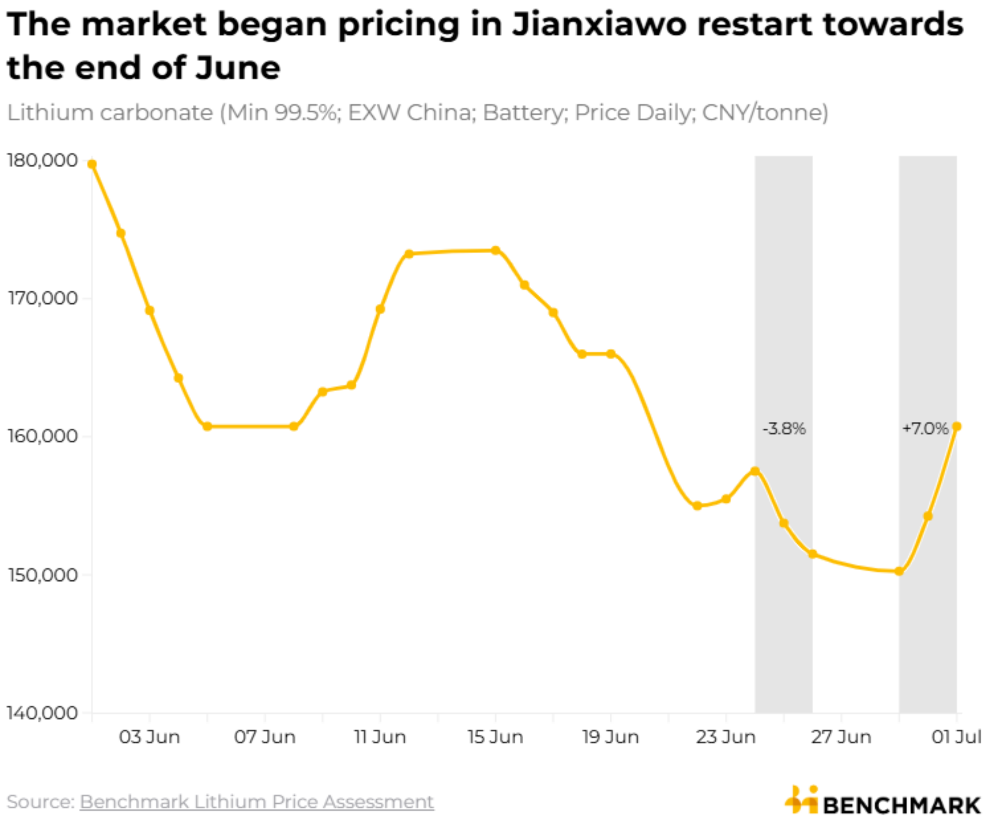
Its decline has dragged down ASX lithium producers such as Pilbara Minerals and IGO and acted as a headwind to the ASX, which has become increasingly reliant on the resources sector for earnings growth.



The latest slump was driven by three things: mine restarts in China and Australia; demand concerns for electric cars following the re-opening of Hormuz; and renewed discussion about sodium-ion batteries.

It also highlights the central contradiction of lithium: while it is the most volatile major commodity by far, its demand growth is also the most certain.

Lithium's drop: CATL and the power of rumours



The main driver of lithium's recent slide has been the restart of Contemporary Amperex Technology Co. Limited's (CATL) giant Jianxiawo mine.

Jianxiawo is one of the world's largest lithium mines and can produce around 6% of global supply. It was shut down in August 2025 on environmental concerns.

The closure sent lithium prices soaring. Lithium carbonate more than doubled in the months that followed, not simply because supply disappeared, but because it was CATL specifically that disappeared.

CATL is both the world's largest battery manufacturer and one of its largest lithium producers. Unlike pure-play miners, it sits on both sides of the trade. Lower lithium prices hurt its mining operations, but they benefit its much larger battery business.

That makes CATL different from most producers, which typically prefer a "value over volume" approach: producing enough material to earn attractive returns, but not so much that the market becomes oversupplied.

In many respects, the past year has been a case of "CATL giveth, CATL taketh away".

Sell the rumour, buy the fact

CATL's ructions have proved a profitable vein for traders and a reminder of how difficult commodity markets are to time.

In mid-June, Chinese authorities conducted what appeared to be a routine site assessment at Jianxiawo. The visit contained no material information, yet it sparked accurate rumours that production would resume. Lithium futures promptly fell nearly 10%.

Then, when the restart was formally announced on 29 June, lithium futures rallied 8.4%.

It was a classic commodity market reaction. The rumour mattered more than the announcement itself.

But it would be unfair to blame lithium's latest weakness entirely on China.

Australian producers have also been dialling up supply. The restart of mines such as Bald Hill has reinforced expectations that additional tonnes are coming. Buyers do not need to chase material when they know more supply is on the way.

Demand worries have compounded the sell-off

Demand concerns have also weighed on sentiment.

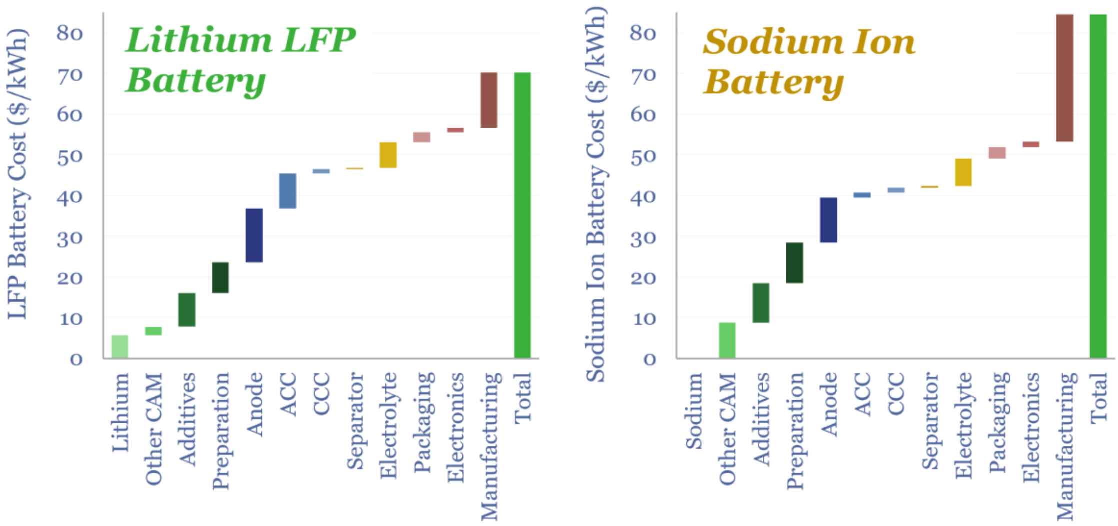
Oil prices fell around 40% between March and late June as the US-Iran ceasefire unwound the geopolitical risk premium. Lower oil prices reduce the economic incentive to switch to electric vehicles.

At the same time, investors have become more cautious on battery energy storage, one of lithium's fastest-growing sources of demand. China has begun reducing tax rebates on battery exports, raising concerns that some of the recent surge in energy storage demand may have been pulled forward.

That helps explain why lithium forwards have sold off alongside spot prices.

The sodium-ion story is probably overdone

The final piece of the puzzle has been renewed talk of sodium-ion batteries replacing lithium-ion batteries.



Source: Thunder Said Energy, June 11, 2026

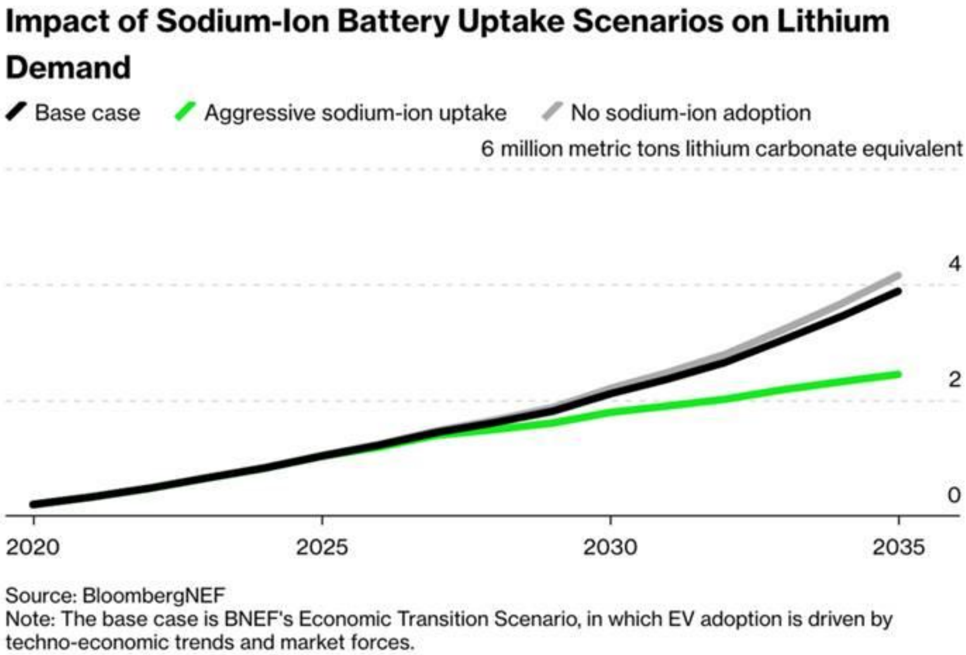
Sodium batteries have been discussed as an alternative to lithium for decades, with such discussion rising and falling with the lithium price. Sodium is abundant, more environmentally friendly, and CATL recently announced that it expects to deploy sodium-ion batteries in more than 10,000 vehicles this year.

Some investors have interpreted that as evidence that lithium demand is about to be disrupted.

But that conclusion is premature at best.

Sodium-ion batteries remain less energy dense than lithium-ion batteries and therefore tend to be heavier and bulkier for the same amount of stored electricity. While engineering improvements may narrow the gap, the underlying chemistry means sodium is unlikely to displace lithium in most electric vehicles.

Instead, sodium batteries are more likely to find niches where weight and size matter less, such as AI data centres. Forecasts from reputable and impartial sources – such as the IEA and BloombergNEF – anticipate sodium subtracting only marginally from long-term lithium demand.



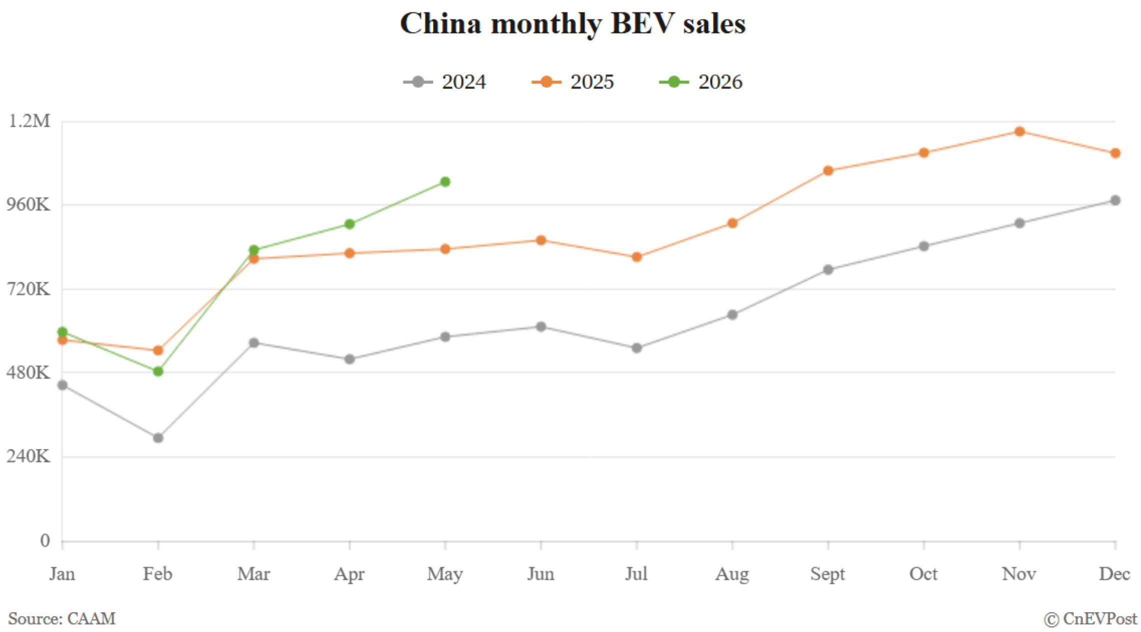
What it means for ASX investors

Tying this all together, lithium remains an extraordinarily volatile commodity.

That volatility does not simply reflect bad news. It also reflects the good news that producers continue to restart mines and bring on additional supply because they expect demand to keep growing.

Historically, Australian producers sold much of their lithium on long-term contracts, giving them some insulation when prices fell. Today, many sell material at prices much more closely linked to spot spodumene.

As a result, their share prices – particularly Pilbara Minerals – increasingly offer geared exposure to movements in the spodumene price. This creates an often-uncomfortable ride for shareholders.



China monthly BEV sales, May 2026. Source: [CNEVPOST](), 10 June 2026

The irony is that while lithium is the most volatile commodity, its long-term demand growth looks the most certain.

Global electric vehicle sales are expected to exceed 23 million units this year. In concrete terms, that means every single person in Australia – including children – buying an electric car every year. That's up from around 17 million in 2024. Battery energy storage installations are also forecast to grow by more than 30% in 2026. Then there are other categories too, such as drones, humanoid robotics and shipping. Most industry forecasts still see global lithium demand roughly doubling by the end of the decade.

The near term may remain challenging as supply returns. But many long-term forecasts continue to point to deficits emerging later this decade unless higher prices incentivise a new wave of investment.

That tension, between unrivalled demand growth and boom-bust supply growth, is the defining feature of lithium investing.

In this setting, we believe a global and diversified approach is preferable to trying to pick winners on the ASX.

The ASX hosts more lithium companies than any other global exchange, which means Australians have plenty to choose from. They're also often familiar with the companies, which creates a sense of comfort in buying their shares.

The problem, though, is that ASX lithium producers are overwhelmingly exposed to hard-rock spodumene, which is most cost-advantaged for lithium hydroxide and premium electric cars. Global lithium miners provide access to a much broader opportunity set, including lower-cost South American brines, integrated chemical producers in China and emerging technologies such as direct lithium extraction, which could eventually unlock vast resources in Argentina, the United States and elsewhere.

Diversification cannot eliminate lithium's volatility. But it can reduce the risk of being overly exposed to a single geography, production method or end market.

ETF Shares provides the ETFS Global Lithium Miners ETF (ASX: VOLT) which began trading on the ASX in April 2026. For more information click here.

David Tuckwell is the Chief Investment Officer at ETF Shares, a sponsor of Firstlinks. He is also a journalist and researcher specialising in finance and international politics. The information provided in this article is general in nature. Before acting on any information in this article, you should consider the appropriateness of the information having regards to your objectives, financial situation or needs and consider seeking independent financial, legal, tax and other relevant advice. Past performance is no guarantee of future performance.

CGT reform and fund turnover: who really feels the impact?

Ethan Xing

The proposed capital gains tax (CGT) reforms announced in the Federal Government's recent budget represent more than a simple change in tax mechanics. They alter the value of one of the most important advantages available to long-term investors: the ability to convert nominal gains into concessionally taxed capital gains.

Today, investors benefit from a 50% discount on gains realised after a 12-month holding period. However, under the proposed framework, that discount would be replaced by inflation indexation, meaning only the inflation-adjusted portion of a gain would be exempt from tax.

At first glance, both systems appear to reward long-term investing. In practice, however, the economics are quite different. The current regime rewards patience with a fixed 50% discount regardless of market conditions, while the proposed system ties the benefit directly to inflation. As a result, the current regime would produce superior after-tax outcomes in almost all instances, other than in an environment where inflation is high over a sustained period.

The key question for investors is therefore not simply whether taxes increase, but which investment strategies are most exposed.

Turnover: the hidden driver of tax outcomes

Portfolio turnover- the degree to which asset managers buy/sell assets in any given year - can have a significant impact on investment performance and tax outcomes. The reason? CGT is only payable on realised gains whereas unrealised gains continue to compound tax-free, creating a valuable deferral benefit for investors.

Let's consider how two funds delivering identical pre-tax returns can produce very different after-tax outcomes, depending on how frequently gains are realised. The table below illustrates the proportion of gains assumed to be realised from positions held for less than, and more than, 12 months across different turnover levels.

	Turnover	(less than 12m hold) assets for sale	(more than 12m hold) assets for sale
Fund A	20%	4.00%	16.00%
Fund B	30%	9.00%	21.00%
Fund C	40%	16.00%	24.00%
Fund D	50%	25.00%	25.00%
Fund E	60%	36.00%	24.00%
Fund F	70%	49.00%	21.00%
Fund G	80%	64.00%	16.00%
Fund H	90%	81.00%	9.00%
Fund I	100%	100.00%	0.00%

Assumption: capital gains are realised proportionally across all portfolio holdings.
Note: tax-aware strategies typically prioritise selling assets held for more than 12 months to mitigate tax impacts.

Consider a fund generating a 10% annual return with 20% turnover, a 30% tax rate (proposed minimum CGT) and inflation of 3%.

Only one-fifth of the portfolio return is realised each year. Of those realised gains, a relatively small proportion originates from shorter-term holdings and is fully taxable. The remainder comes from assets held for longer than 12 months and therefore qualifies for concessional treatment.

Under the current system, the tax payable on those longer-term gains is approximately 0.24% at the portfolio level. Under the proposed indexed approach, tax rises to around 0.34%. The result is a reduction in after-tax return of roughly 0.10% p.a.

While 0.10% may appear modest, its cumulative impact becomes meaningful over long investment horizons. More importantly, it highlights a broader principle: when investment returns significantly exceed inflation, a 50% CGT discount is substantially more valuable than inflation indexation.

The surprising impact on moderate-turnover funds

The impact of the reform is not linear. One might assume that high-turnover funds would be most affected because they realise more gains. In reality, the greatest impact falls on funds with **moderate turnover.**

		Capital return							
		3%	6%	8%	10%	13%	15%	18%	20%
Fund turnover	20%	0.07%	0.00%	-0.05%	-0.10%	-0.17%	-0.22%	-0.29%	-0.34%
	30%	0.09%	0.00%	-0.06%	-0.13%	-0.22%	-0.28%	-0.38%	-0.44%
	40%	0.11%	0.00%	-0.07%	-0.14%	-0.25%	-0.32%	-0.43%	-0.50%
	50%	0.11%	0.00%	-0.08%	-0.15%	-0.26%	-0.34%	-0.45%	-0.53%
	60%	0.11%	0.00%	-0.07%	-0.14%	-0.25%	-0.32%	-0.43%	-0.50%
	70%	0.09%	0.00%	-0.06%	-0.13%	-0.22%	-0.28%	-0.38%	-0.44%
	80%	0.07%	0.00%	-0.05%	-0.10%	-0.17%	-0.22%	-0.29%	-0.34%
	90%	0.04%	0.00%	-0.03%	-0.05%	-0.09%	-0.12%	-0.16%	-0.19%
	100%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Why? Low-turnover strategies defer most gains and therefore remain largely insulated from any changes to the taxation of realised gains.

High-turnover strategies are also relatively unaffected because a large proportion of their gains are already taxed at full rates. They receive little benefit from the current CGT discount and therefore have less to lose.

Moderate-turnover funds sit in the middle. They realise enough gains to create a meaningful tax liability, yet still rely heavily on long-term holdings that currently benefit from the 50% discount. These strategies enjoy the largest tax advantage under the existing regime and therefore stand to lose the most when that concession is replaced by inflation indexation.

In many cases, the after-tax impact peaks around turnover levels of 40-60%.

Market returns matter just as much

The impact of the reform also depends heavily on the return environment. When returns are close to inflation, there’s little difference between the two systems. In fact, indexation can occasionally be marginally more favourable, because inflation offsets much of the taxable gain.

However, as returns rise above inflation, the gap widens quickly. The current 50% discount becomes increasingly valuable, while the benefit provided by indexation remains fixed by the inflation rate. In other words, the reform matters most when investors are successful.

Strategies delivering strong capital growth are likely to experience the greatest deterioration in after-tax outcomes, particularly when combined with moderate turnover.

Implications for portfolio construction

Turnover remains a key driver of after-tax outcomes, determining the extent to which returns are realised and subject to tax. While the proposed reform doesn't change this fundamental relationship, it reduces the tax advantage of long-term holdings by replacing the 50% CGT discount with a less generous indexation framework. The effect varies across strategies and is influenced by both turnover and investment returns, becoming more pronounced in stronger market environments. High-return, moderate-turnover strategies appear most exposed, while very high-turnover strategies are comparatively less affected.

From an investor's perspective, only gains accrued post 1 July 2027 are impacted, while existing unrealised gains retain access to the current discount. While our primary focus remains on maximising pre-tax risk-adjusted returns through active allocation and rigorous manager research, tax considerations will increasingly matter in preserving investor wealth.

Overall, tax efficiency is likely to become a more explicit input into manager selection and portfolio construction, alongside risk/return, style, diversification and liquidity.

Ethan Xing, CFA is a portfolio manager at Zenith Investment Partners. This article is general information and does not consider the circumstances of any individual investor.

Super was built for a very different Australia

Adam Nettheim

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A superannuation fund that does everything right in the final five years before a member retires but nothing beyond accumulation in the preceding 35 years is like a coach who only works with their client the week before a marathon.

The outcome is determined long before that final preparation begins.

Health, housing stability and social connection are just a few of the real determinants of wellbeing in retirement, and all of them are substantially shaped in the decades before the retirement date arrives.

When I wrote in Retirement Magazine late last year that the Government should relax the sole purpose test to allow super funds to play a more active role in members' lives for this reason, it raised a few eyebrows. This doesn't mean the sole purpose test isn't important; it was critical at the time for a sector which was in its infancy of building wealth.

A system that has delivered extraordinary results for Australians over three decades – now managing more than $4.5 trillion on behalf of nearly 18 million people – doesn't invite radical rethinking lightly.

The establishment of superannuation was pitched by Prime Minister Paul Keating in 1992 as a means to "materially improve the quality of life in retirement".

A lot has changed since then and super should too if we're going to ensure we continue to deliver on that objective.

The shift no one is fully prepared for

At CSC, we run financial literacy sessions for graduate members – young public servants and defence personnel at the very beginning of their careers.

For years, these sessions were, frankly, a hard sell. Attendance was modest and engagement was worse. Super felt abstract and distant to younger workers whose financial priorities sat elsewhere.

In the past two or three years, something has shifted. These sessions have become some of our most heavily attended member engagement events.

The questions from young members are sharper and the interest more urgent. We are seeing engagement from people in their mid-twenties that we would previously have expected only from members in their fifties.

What has changed? Many of these younger members have come to the realisation that superannuation will be their largest financial asset, sparking much earlier engagement.

When compulsory superannuation was introduced, most young Australians entering the workforce carried a reasonable expectation of eventually owning a home. That home would function, in parallel with super, as a retirement asset.

That expectation is now an exception rather than the rule.

Less than half (42%) of young people surveyed last year thought it likely or very likely that they will be able to buy a home in the future. Meanwhile, 79% of young Australians think they will be financially worse off than their parents.

In just five years, the share of household earnings going to monthly mortgage repayments has doubled.

For many people starting work today, home ownership may simply never happen. And these same people will live longer than any previous generation of retirees.

Since the inception of superannuation, the average life expectancy for a woman has increased by around five years; for men, it's about seven years. We're seeing this longevity in our CSC members, with around 280 of them becoming centenarians in 2025.

With ongoing advances in healthcare and technology, those numbers will extend further still for the generation now in their twenties.

They will spend more time in retirement, be active for more of it and do so without the housing security that underpinned every retirement generation before them.

The superannuation system was not designed for this cohort. The question is whether it can evolve to serve them.

The problem with waiting until retirement

Australia's regulatory frameworks and industry attention have been almost entirely oriented toward the finish line. The Retirement Income Covenant, introduced in 2022, mandated that funds develop strategies for the decumulation phase.

The super industry has responded by investing heavily in products and services designed for people who are on the cusp of retiring. All of this matters but it only addresses part of the problem.

There is also a spending problem waiting on the other side of that effort. The Retirement Income Review found that most Australians die with the bulk of their retirement wealth intact. This is driven by many factors, including the fear of running out.

Treasury projects that by 2060, one in every three dollars paid out of the superannuation system will be a bequest. It's currently one in every five dollars.

A renting retiree will feel that fear more acutely. Their super will need to work harder, the margin for error will be smaller, and the psychological freedom to spend will be narrower.

Super becoming a tax-friendly vehicle for intergenerational wealth transfer runs counter to its founding purpose. It doesn't improve the quality of life of retirees; rather it forces them to live more frugally than necessary, something that has wider societal impacts.

In contrast, a financially confident retiree is more likely to be out in the community spending money, resulting in increased employment opportunities for younger people. While the societal benefits of this are clear, it could also be seen as a different way of moderating the tax impacts of a declining birth rate.

What an expanded mandate could look like

No other institution in Australia has the reach, the continuity of relationship, or the long-term financial scale to play a meaningful role in members' lives across all of this.

What might genuine life-stage engagement look like in practice? Some starting points:

Housing: The major funds hold substantial commercial property assets while national vacancy rates are at record highs. There is a serious case for exploring how these assets could be repurposed to provide affordable, secure housing to address members' most pressing unmet financial need. A member living in secure, affordable accommodation facilitated by their own fund would be better placed to save, better placed to plan, and better placed to retire.

Financial advice: Comprehensive financial advice remains too expensive and too inaccessible for most Australians at the moments they most need it. Funds have the scale to fundamentally change the economics of advice delivery. A modest per-member monthly levy providing access to comprehensive advice on demand would be transformative. Members who understand their finances save more purposefully, retire more confidently, and spend their savings more effectively.

Health: Partnering with insurers and preventive health providers to support members' physical and mental wellbeing across the lifecycle – not just when claims arise – is entirely consistent with a genuine commitment to retirement outcomes. A healthier member at 65 can spend more confidently, claim less, and draw on their savings for the experiences that retirement should offer.

Superannuation's promise was never just a number. It was a better life in retirement.

Delivering that promise – for a generation that will be renting, living longer and arriving at retirement with more uncertainty than any generation before them – will require us to think more expansively about what that promise actually means.

That conversation will be uncomfortable in places and will take bravery from both Government and the sector. And I'm sure it'll invite some further eyebrow-raising.

But the alternative will produce a retirement crisis for a generation that deserves better. The system that built Australia's retirement future has both the scale and the responsibility to help shape the life that leads to it.

The graduates in our seminar room, asking sharper questions than their predecessors ever did, already know something has changed. It's time the industry caught up.

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Retirement in reality - 4 months in

Dr Joanne Earl

For those of you who have just connected I retired 4 months ago from being a full-time academic after researching retirement planning for nearly 20 years. Now I am focusing on implementing my findings: for myself, for individuals and for organisations. As I promised when I retired, I am providing a month-by-month account of my findings from the other side. Before I get into the top four things I want to talk about this month, I just want to say how much I am enjoying the fruits of my labour and making the most of retirement. Honeymoon in full swing. Double rainbows. This month I want to talk about: work, social, health and motivation.

Sydney Harbour from the Ferry on the way to Abbotsford. Taken with my own camera (sorry about the raindrops).

Work

What work will you continue to do in retirement, and will it be paid or unpaid? If your work is unpaid (i.e. voluntary) who will you be volunteering for? What will you do? Where do you draw the line? It's an interesting question. I've been very busy with individual meetings, talking to organisations about putting their ideas into action, working on our ARC grant extending the original retirement resources model, running workshops, writing a book foreword and participating in research round tables. I am happy to help with selected charities but if I contribute to a money-making venture then I think it's reasonable to be paid too. It's interesting how many people think your personal goal should be to support their own personal goals – for free. I'm not talking here about charities or community groups I'm talking about money making venues and income producing enterprises. There's a difference between volunteering to assist a charitable cause or sharing ideas vs being used for free unpaid labour. If you are working with retirees make sure to respect their time. If you are a retiree – know your worth, fill your space and don't allow yourself to be exploited. If a 15-year-old was asked to work for free in a bakery it would be front page news.

Social

Making new friends through activities. I've generally avoided stepping too far out of my comfort zone to try new activities – other than health. Probably a consequence of a well-meaning HR Director early in my career recommending that I try new hobbies to focus on work less. At that time, I enrolled in a cake decorating course. Never learnt too much about cake decorating but I did manage to update one of the other attendee's CV, practise her interviewing skills and help her to get an apprenticeship. That made it worthwhile. None the less I can still make realistic flowers out of blu-tac – a much-valued skill when you hit a dull spot during a conference. In the interest of putting into practise the importance of extending networks in retirement, I enrolled in a jewellery making course to assist me in bringing to market a patented design I have for a hearing aid security device that looks like jewellery. I am working with a great bunch of women who are genuinely creative and it's taught me a lot of patience. As a bonus I now understand enough jewellery lingo to speak to manufacturing jewellers about my patent. It's not so much about the jewellery as it is making new friends, trying new things and learning new skills (patience).

Health

Although previously a conscientious objector to wearables that monitor my health, I finally succumbed this month. The main reason was sleep. Two of my retired academic colleagues have complained of poorer sleeping habits in retirement and I could see myself going down the same track. Synapses firing with new ideas day and night made for a very restless sleep indeed. So, I bought a Fitbit Air (no product review stitches here or paid endorsements just some plain home truths). It's clear that the product testing team contained people with average or above average wrist size. More diversity was needed. It's resulted in the strap provided wrapping around my wrist almost twice. Not quite the "light as air" experience I'd imagined. So, product developers if you want to appeal to mass audiences make sure your sampling reflects the masses. I know, I know I can also strap it to my ankle but being mistaken as a fugitive when I'm buying a new pair of shoes was not part of my retirement plan. Anyway, I'm finding the extra health information useful, especially for sleep.

Motivation

We've talked about the importance of setting goals with specific information using implementation intention techniques last month. For those of you who missed it there was some interesting research at Macquarie Uni showing that the absence of five key activities over a two-week period was enough to trigger depressive episodes. The five activities were: maintaining realistic thinking; engaging in meaningful activities, having goals and plans; keeping healthy routines and staying socially connected. I think this provides extra evidence for the importance of creating some routine early in the retirement journey. If you haven't downloaded the 63 hours worksheet you can do so by visiting my website: www.RetirementDr.com.au

Joanne Earl is a Psychologist and Honorary Professor of Psychology and Retirement Planning. You can read more about Joanne's retirement journey via LinkedIn or visit her website: www.retirementdr.com.au.

After the Budget, Australia needs its own definition of quality

Arian Neiron

Australian investors have rarely been asked to navigate so much at once. The most concentrated developed equity market in the world. A central bank tightening again into a slowdown. Concerns about the global cycle. And now, due to the recent Federal Budget, the most consequential rewrite of investment tax settings since 1999.

The headline was the overhaul of the capital gains tax regime, the replacement of the 50% CGT discount with cost-base indexation, alongside a 30% minimum tax on capital gains from 1 July 2027. The early debate has focused, predictably, on whether income or growth-oriented assets stand to gain. But that framing misses the point.

Tax regimes shape, over years, how markets price risk, resilience and shareholder return and a change of this magnitude rarely just redirects flows. It revalues them.

This one will reveal, in time, something the Australian market has misunderstood for a long time: quality investing, as global investors define it, does not translate cleanly to Australia.

The signal itself is not the problem. Quality investing is one of the few market anomalies that has survived almost every academic and market stress test of the past three decades.

Eugene Fama and Kenneth French identified profitability and disciplined investment as persistent drivers of excess return beyond traditional value and size factors. Robert Novy-Marx later showed that gross profitability was one of the cleanest predictors of long-term equity performance, while the quality minus junk framework developed by Cliff Asness, Andrea Frazzini and Lasse Pedersen at AQR expanded the definition of quality across profitability, growth, safety and payout characteristics.

Those ideas underpin many of the world's most respected quality strategies today. MSCI's quality methodology, one of the global institutional standards for quality investing, systematically screens for companies with high return on equity, lower leverage and more stable earnings profiles. Over the past three decades, global quality strategies have consistently outperformed broader equity markets and exhibited the resilience investors expect during periods of economic stress.

Australia is structurally different

Australia's equity market is structurally cyclical. Financials and resources together account for close to half the S&P/ASX 200, making it one of the most concentrated developed markets in the world.

Traditional quality frameworks were built around stable return on equity, lower leverage and predictable earnings growth. Australia's market structure distorts all three. BHP and Rio Tinto will always be hostage to commodity cycles. The Big Four and Macquarie are leveraged by design. In a market this concentrated, quality portfolios inevitably become oversized stock and sector bets: by our analysis, the top 20 holdings account for roughly 73% of portfolio exposure versus 48% globally.

Eventually, the market structure overwhelms the factor. Globally, the MSCI World ex Australia Quality Index has outperformed its parent benchmark by more than 3 percentage points per annum since 1994 while delivering the resilience investors expect during periods of stress. Applied to Australia, the same frameworks have produced weaker and less consistent outcomes, with several pure quality strategies at times falling further than the ASX 200 during periods of market stress.

In a post-Budget market increasingly focused on resilience, tax efficiency and sustainable shareholder returns, those distortions matter even more.

What the market is rewarding

Australia is a poor market for pure factor investing, hence we have been strong advocates of factor-indifferent approaches by way of equal weighting. But that does not invalidate the underlying signal. Markets still reward businesses capable of generating durable free cash flow, protecting balance sheets and surviving periods of economic stress. That matters more in a world where capital is no longer free.

The defining feature of quality has never been spectacular upside. It has been survivability. Losing less in downturns matters more than outperforming in euphoric bull markets.

The Federal Budget may only accelerate that repricing. In a market where tax efficiency, resilience and sustainable shareholder return matter more, Australia increasingly needs a definition of quality built for its own market structure.

No single factor solves the problem in isolation. Quality becomes distorted by concentration. Value becomes a commodity bet. Growth becomes vulnerable when rates rise. Momentum whipsaws with the cycle. In concentrated markets, factors need to offset one another rather than operate independently.

The answer is not abandoning quality, but redefining it around resilience, valuation discipline and survivability. The result is a portfolio that still owns many of Australia's highest-quality franchises, but with very different convictions: less dependence on concentrated mega-cap exposures, and greater emphasis on resilient industrials, healthcare leaders, consumer franchises and businesses capable of compounding through the cycle.

The Budget has only reinforced the point. With the after-tax value of capital gains falling relative to franked income, markets will reward tax-efficient, sustainable dividend streams more highly. The problem was never the quality signal itself. It was the assumption that global frameworks would translate cleanly to a market like Australia.

As Howard Marks once observed: "It's more important to ensure survival under negative outcomes than it is to guarantee maximum returns under favourable ones."

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Datacentres are the new shale oil

Harris Kupperman

I've now written two pieces on the economics of AI datacenters (**Piece 1**, **Piece 2**). Nothing shakes me from my view that these are deeply negative ROIC investments. Yet, hyperscalers have continued to plough ahead and build them anyway.

First, they've used up most of their annual cash flow, then they've taken on debt to fund them, and now Alphabet (GOOG) has even resorted to its first major equity issuance since 2004 (with Meta reportedly considering one as well now). Despite their desperation to build datacenters, I haven't seen a single financial model that shows one with a positive ROIC. It's sort of surreal to watch, as any sane human would long ago have reversed course. But no, these guys are simply in a never-ending race to build datacenters.

The only recent historical comparison that I can think of is last decade's shale patch. While I'm not involved in datacenters, I did have a unique window into shale through my frequent calls to shale CEOs, pleading with them to stop drilling wells with negative ROICs at then-current strip prices. I see a lot of the datacenter mentality, through the lens of those calls. Let me combine a few dozen of those shale oil CEO calls and build you a composite collage of the typical conversation.

Me: By my math, drilling these wells at $55 oil has a negative ROIC. Do you have some different math that disproves mine??

Him: Mr. Kuppy, I'm an oilman. I'm not a numbers man. If those are your numbers, I cannot refute them.

Me: So, then why are you drilling wells with a negative ROIC??

Him: I'm an oilman. That's just what I do. I drill wells, as long as someone will fund them.

Me: Don't you realise that you're drilling yourself to death? You're destroying capital. If you stopped today, you could create real value for shareholders. If you keep going, you'll go bust.

Him: I promised the shareholders that we'd have production growth, and I refuse to break my promise to them.

Me: Your stock is down 90% in the past 2 years. The market hates your production growth plans.

Him: …But we don't want to upset our lenders.

Me: You're borrowing at 18% with warrants. The lenders are telling you that you're about to be cut off.

Him: Yeah, that debt, it really is pretty expensive… But, if I stop drilling, all my oil friends will think I'm a loser.

Me: Who cares?? They're all about to go bankrupt. Why don't you stop drilling, use the cashflow to pay down expensive debt, and then put yourself into a better position to buy up your competitors in bankruptcy, as they drill themselves to death??

Him: …uhhh…hmmmm…. Mr. Kuppy, you just don't understand oilmen. We drill. If we have money we drill. If we don't have money, we still drill. We always find a way to keep drilling. I don't care if these things have negative ROIC. I've told you, I'm not a numbers man, I'm an oilman!! God put me on this earth to drill wells!! Unless you're about to give me money to drill a well, I think we're done here… <Hangs Up Phone>

Trust me, I begged. I pleaded. I thought that if I could just get one of these guys to stop drilling, the stock would scream higher. They'd pay down some debt and then consolidate whole basins as their stocks would trade up from 2x EBITDA to 4x EBITDA. Those drilling locations would be priceless today. It would be an absolute home run. Instead, they were drilled with oil futures trading in the $50s, and a negative ROIC. It was the most incredulous thing to watch. CEOs, some of whom lost hundreds of millions, just kept drilling, despite knowing that the economics were insane. They simply refused to be the first to break ranks. They preferred to go broke, rather than stop drilling.

They all went broke or were acquired for pennies on the dollar. I literally never convinced a single one of them to stop drilling. Instead, during COVID, when oil briefly went negative, the market pulled the plug on these companies. They couldn't access any more debt, nor equity. The market refused to let them drill another well. It was the market that finally ended their drilling spree.

However, the market tried it the nice way first. The equity markets cut them off first, as these things traded down to 2x EBITDA, then the lending markets froze them out. They could have reversed course. Instead, they simply kept going. At any moment in time, they could have stopped, but they refused.

I bring this all up as the hyperscalers seem obsessed with building more datacenters and have now begun to outrun their own resources. I'm not saying that this is the end of the datacenter buildout. Instead, I'm saying that this is an interesting signpost along the way.

I remember that there was a time in the shale patch where investors genuinely wanted companies to grow production. They wanted to see wells drilled as each vintage seemed to have better economics as the technology improved. I remember these things trading at absolutely insane valuations. I remember companies that were rewarded for bragging that they had enough land to drill billions worth of new wells. These were considered growth names, until they weren't. Eventually, the math caught up with them, and no one would reverse course. They just kept going—partly because they had spending commitments that they couldn't get out of, and partly because they needed EBITDA growth to keep the banks at bay. Mostly, they just believed that if they could somehow produce more oil, it would solve things.

We're still in the happy phase where investors want to see more datacenters. Which is somewhat odd, because for two decades, these hyperscalers were valuable precisely because they were asset-light. Now, they're increasingly becoming asset-heavy. At some point, investors who have grown accustomed to buybacks will grow frustrated by capital issuances. Then, they'll get disgusted by the datacenter buildout. They'll beg, they'll plead, and eventually they'll sell the shares down in complete frustration. Yet, still, these companies will keep going. Do you remember how much pain Zuckerberg had to take on the Metaverse before he finally canned it?? The stock had to completely detonate for him to give up.

Maybe these tech names won't go to 2x EBITDA like shale names, but if they have the same terrible economics (at scale, with huge electricity purchase commitments), maybe they will*. This is a process. I don't think we're at the end of the buildout—not yet. These guys still have a lot of rope left to access cashflow, balance sheet capital and the equity markets. However, the pivot from buybacks to equity issuances is an intriguing signpost along the way. I think we're finally at the point where investors start to get disgusted by the change in business plan. Then the re-rating starts.

Much like my oilmen, I suspect that the tech bros will just push ahead anyway, despite the pleas to stop. They're chasing AGI, or creating a new god, or whatever it is that tech bros dream about—just like oilmen dream about drilling wells. It's going to take a lot of pain to talk them out of this.

I still remember those calls in the second half of the 2010s. I was really in disbelief as guys bankrupted themselves—they even took pride in it. In the second half of the 2020s, tech investors will get to experience a similar emotion.

As far as I'm concerned, datacenters are the new shale…

**All valuation multiples cited are hypothetical or illustrative historical comparisons, not price targets or forecasts. Actual results may differ materially.*

Harris Kupperman is the Founder & Chief Investment Officer of [Praetorian Capital Management], and author of Praetorian Capital's public blog, [Kuppy's Korner], from which this article has been reproduced with permission.

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