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Editorial

Division 296 has long been framed as a tax on the ultra-wealthy, but new data suggests it is likely to reach far deeper than the headline \$3 million threshold implies.

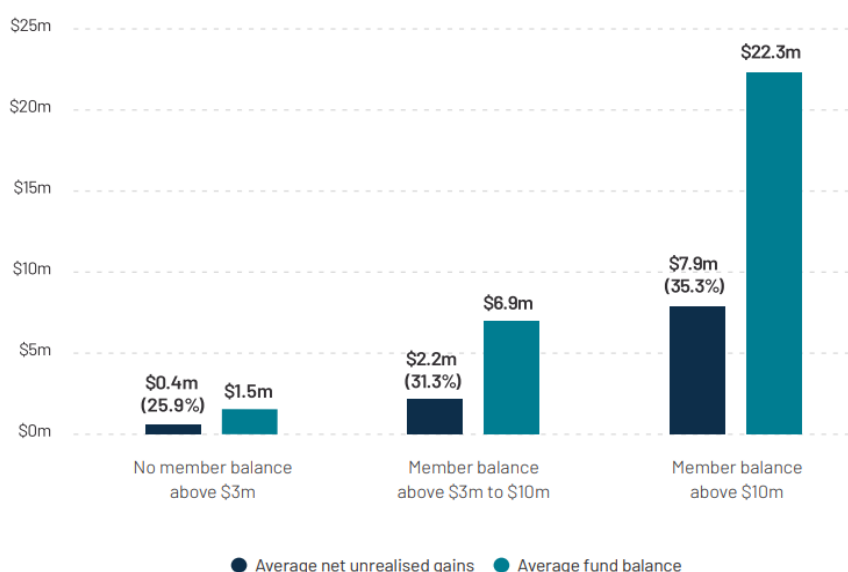
The standout finding from [Class's benchmark data](#) is not the number of members already caught by Div 296. It is the sheer stockpile of unrealised gains sitting inside SMSFs. Nearly three-quarters of funds held a positive net unrealised capital gains position at 30 June 2026, averaging around \$620,000.

Among funds with a member balance above \$3 million, that figure jumps to \$2.2 million and rises to almost \$8 million for those with balances above \$10 million

The legislation offers a one-off opportunity to reset the cost base of all CGT assets to market value as at 30 June 2026 for Div 296 purposes. This is an all-or-nothing election. Trustees cannot cherry-pick assets and once the decision is made there is no turning back.

The instinctive assumption is that this is a problem for today's wealthy SMSFs. Yet there are a number of funds standing just

Average unrealised gains and fund balance by member balance cohort at 30 June 2026*



*FY26 unrealised gain and loss data is indicative. Not all Class SMSFs have reconciled their accounts, updated CGT asset market values or completed period updates at the time of analysis.

outside the spotlight. Only 8.8% of Class SMSFs currently have a member balance above \$3 million, but another 9.4% sit in the \$2-\$3 million range.

Many who consider Div 296 someone else's problem may discover it is only a matter of time before it becomes their own.

Residential LRBA restrictions may have more impact than expected

The debate around borrowing in super has largely fixated on the size of the market. The more important question is whether policymakers underestimated just how embedded residential property leverage had become in the SMSF psyche.

In the year before the restriction on new residential property LRBAs took effect, almost 93% of all LRBA holdings on the platform were tied to residential property. Interestingly, Class identified 3,672 new

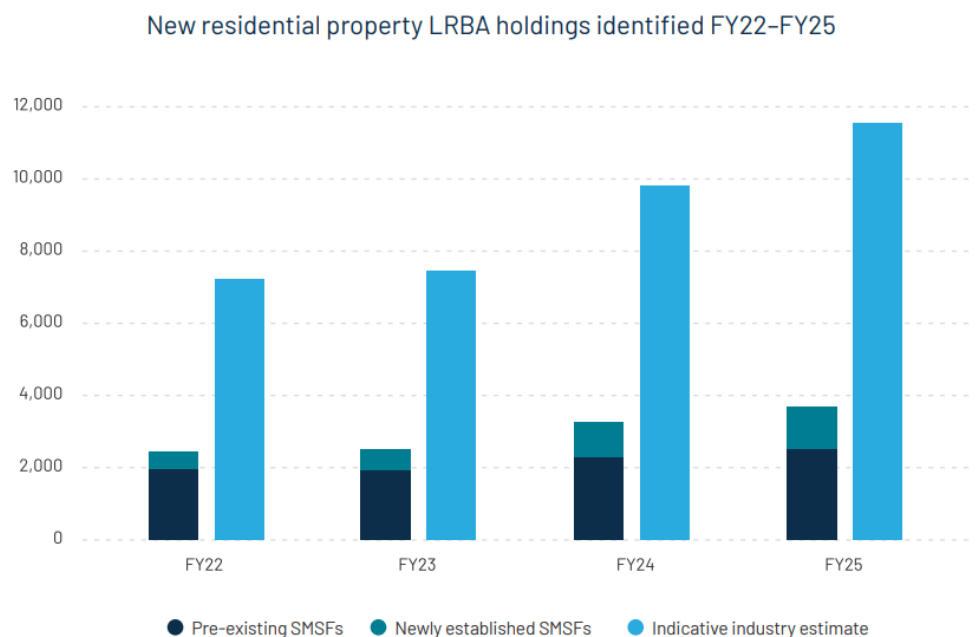
residential property LRBA holdings in FY25. This points to an estimated 11,500 new arrangements across the broader SMSF sector if extrapolated nationally. It's hard to argue this is a niche strategy in its twilight years.

The strongest growth came from newly established SMSFs where residential LRBA activity more than doubled over 2 years. Perhaps that suggests the SMSF proposition was increasingly being built around the national conviction that property financed with debt remains the surest path to long-term wealth.

This partially challenges the notion set by policymakers that may have viewed residential borrowing as a relatively contained feature of the SMSF landscape. There appears to be far broader participation and stronger growth than many expected.

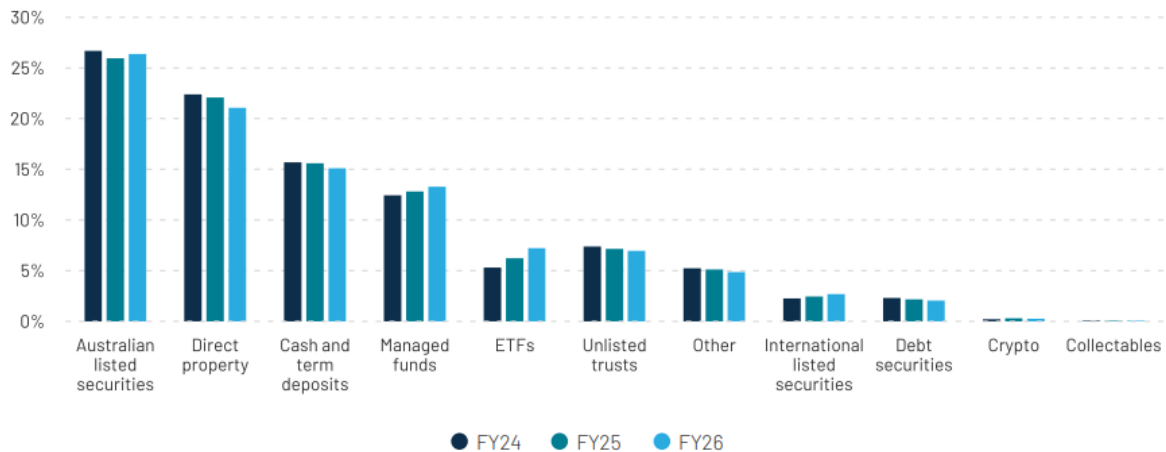
Asset allocation

Listed Australian shares and direct property remained the two most popular assets, accounting for 26.4% and 21.1% of assets respectively. The most obvious movement was in ETFs, which increased 1% to reach 7.2% of assets, overtaking unlisted trusts.



New LRBA methodology: New LRBA holdings are estimated from Australian residential property LRBA holding accounts of at least \$50,000 that were not present in the prior financial year. Newly established SMSFs are funds established in the same financial year as the LRBA. Industry estimate methodology: Industry estimates extrapolate Class LRBA activity using its share of Australian SMSFs in the relevant financial year and assume LRBA activity occurs at a similar rate across the wider SMSF population. Class represented 31.8% of Australian SMSFs in FY25.

Class SMSF asset allocation FY24-FY26



On the ASX side, the old guard firmly maintains control of many SMSF portfolios. BHP and Woodside remain the two most widely held Australian shares but what's perhaps more interesting is that their popularity is declining. Both fell from FY25, when BHP was held by 49.0% and Woodside by 41.8%.

Notably, Amcor returned to the top 20 in FY26, ranking 18th and held by 12.7% of funds with direct domestic shares, while Endeavour Group dropped out.

Rank	Security code	Description	% of Funds with Domestic Shares that hold this Security	% of total SMSF Domestic Share investments
1	BHP	BHP Group Limited	46.6%	5.5%
2	WDS	Woodside Energy Group LTD	37.2%	1.7%
3	NAB	National Australia Bank Limited	34.4%	3.4%
4	WBC	Westpac Banking Corporation	34.1%	3.6%
5	ANZ	Australia And New Zealand Banking Group Limited	34.1%	3.2%
6	CBA	Commonwealth Bank Of Australia.	31.9%	5.9%
7	CSL	CSL Limited	31.4%	1.4%
8	TLS	Telstra Corporation Limited.	31.4%	2.0%
9	WES	Wesfarmers Limited	29.4%	3.2%
10	MQG	Macquarie Group Limited	28.5%	3.1%
11	WOW	Woolworths Group Limited	24.1%	1.3%
12	RIO	Rio Tinto Limited	21.8%	1.9%
13	COL	Coles Group Ltd	18.4%	0.8%
14	RMD	Resmed Inc - Cdi 10:1 Foreign Exempt Nyse	17.3%	0.6%
15	TCL	Transurban Group - Ordinary Shares/Units Fully Paid Triple Stapled	16.0%	0.9%
16	SHL	Sonic Healthcare Limited	13.1%	0.4%
17	GMG	Goodman Group - Fully Paid Ordinary/Units Stapled Securities	12.9%	0.6%
18	AMC	AMCOR PLC/IDR UNRESTR	12.7%	1.1%
19	S32	South32 Limited	12.5%	0.3%
20	STO	Santos Limited	11.9%	0.4%
Total (Percentage that the top 20 make up of total SMSF investments in Direct Domestic Shares)				41.3%

On direct international shares, the technology behemoths continued to dominate. The top three were unchanged from the previous year - Microsoft (29.3%) remaining the most popular holding, followed by Alphabet (26.8%) and Amazon (25.0%).

Rank	Security code	Exchange	Description	% of funds with international shares that hold this security	% of total SMSF international share investments
1	MSFT	NASDAQ	Microsoft Corp	29.3%	4.0%
2	GOOG(L)	NASDAQ	Alphabet Inc - Class C(A) Shares combined	26.8%	7.5%
3	AMZN	NASDAQ	Amazon.com Inc	25.0%	3.7%
4	NVDA	NASDAQ	NVIDIA Corporation	19.2%	4.4%
5	AAPL	NASDAQ	Apple Inc	17.5%	5.3%
6	V	NYSE	Visa Inc	11.4%	1.5%
7	TSLA	NASDAQ	Tesla Inc	10.9%	3.8%
8	META	NASDAQ	Formerly known as Facebook	10.9%	1.0%
9	BRK.A/B	NYSE	Berkshire Hathaway Inc. Classes A & B combined	8.8%	3.7%
10	JPM	NYSE	JPMorgan Chase & Co	8.7%	1.1%
11	TSM	NYSE	Taiwan Semiconductor Mfg. Co. Ltd.	7.6%	1.3%
12	ASML	NASDAQ	ASML Holding NV	6.9%	1.2%
13	AVGO	NASDAQ	Broadcom Inc	6.4%	0.7%
14	LLY	NYSE	Eli Lilly And Co	5.9%	0.7%
15	MA	NYSE	MasterCard Inc	5.6%	0.7%
16	PLTR	NASDAQ	Palantir Technologies Inc	5.1%	0.4%
17	NFLX	NASDAQ	Netflix Inc	5.0%	0.1%
18	MC	NYSE	Moelis & Co	4.8%	0.3%
19	DIS	NYSE	Walt Disney Company	4.7%	0.3%
20	UBER	NYSE	Uber Technologies Inc	4.7%	0.3%
Total (Percentage that the top 20 make up of total SMSF investments in direct international shares)					42.0%

One notable feature of the data is the composition of popular managed funds. Income-focused funds continue to dominate rankings where the Janus Henderson Tactical Income Fund retained the top spot (8.3%), while Bentham Global Income Fund moved from fourth to second, held by 7.1% of funds.

Rank	Security code	Description	% of funds with managed funds that hold this security	% of total SMSF managed fund investments
1	IOF0145AU	Janus Henderson Tactical Income Fund	8.3%	0.9%
2	CSA0038AU	Bentham Global Income Fund	7.1%	0.5%
3	ETL0276AU	Partners Group Global Value Wholesale	6.9%	0.8%
4	ETL0018AU	PIMCO Global Bond Fund - Wholesale Class	6.9%	0.7%
5	LAZ0014AU	Lazard Global Listed Infrastructure Active ETF	5.8%	0.5%
6	VAN0003AU	Vanguard W'sale International Shares Index Fund	5.8%	1.5%
7	VAN0002AU	Vanguard Australian Shares Index Fund	5.5%	1.4%
8	VAN0004AU	Vanguard Australian Property Securities Index Fund	5.4%	0.3%
9	EV02608AU	Metrics Direct Income Fund	5.2%	0.6%
10	OMF3725AU	Realm Short Term Income Fund - Ordinary Units	4.9%	0.5%
11	LTC0002AU	La Trobe Australian Credit Fund - 12 Month Term Account	4.8%	0.9%

12	VAN0105AU	Vanguard International Shares Index Fund (Hedged)	4.8%	1.2%
13	OMF5868AU	Realm Strategic Income Fund Enduring Units	4.7%	0.6%
14	WHT0015AU	Resolution Capital Global Property Securities Fund (Managed Fund)	4.4%	0.3%
15	MAQ0277AU	Macquarie Income Opportunities Fund	4.3%	0.4%
16	AUS0112AU	Aus Unity Healthcare Property Wholesale	4.2%	0.4%
17	MAQ0464AU	Arrowstreet Global Equity Fund	4.2%	0.6%
18	WHT1465AU	Plato Global Alpha Fund	4.1%	0.4%
19	AUS0035AU	Talaria Global Equity Fund Complex ETF	3.9%	0.3%
20	PLA0002AU	Platinum International Fund	3.8%	0.4%
Total (Percentage that the top 20 make up of total SMSF investments in managed funds)				13.3%

The most popular LICs generally stayed consistent in FY26, though AFIC, Metrics, ARGO and Wilson Asset Management saw some mild attrition.

Rank	Security code	Description	% of funds with LIC/LITs that hold this security	% of total SMSF LIC/LIT investments
1	AFI	Australian Foundation Investment Company Limited (AFIC)	17.0%	10.3%
2	MXT	MCP Master Income Trust	15.7%	5.8%
3	ARG	Argo Investments Limited	13.2%	9.0%
4	WAM	WAM Capital	10.2%	3.7%
5	LSF	L1 Long Short Fund	10.0%	6.2%
6	WLE	WAM Leaders Limited	9.2%	4.7%
7	MFF	MFF Capital Investments Limited	7.8%	6.9%
8	PGF	PM Capital Global Opportunities Fund Limited	7.5%	4.5%
9	GCI	Gryphon Capital Income Trust	7.0%	2.8%
10	WGB	WAM Global Limited	6.4%	2.1%
11	PL8	Plato Income Maximiser Limited	6.2%	3.3%
12	PCI	Perpetual Credit Income Trust	4.9%	1.6%
13	KKC	KKR Credit Income Fund	4.9%	1.3%
14	ORI	Qualitas Real Estate Income Fund	4.8%	1.7%
15	WQG	WCM Global Growth Limited	4.6%	2.1%
16	MA1	Monash Absolute Investment Company Limited	4.5%	1.4%
17	MOT	MCP Income Opportunities Trust	4.4%	1.3%
18	DJW	Djerriwarrh Investments Limited	4.4%	1.8%
19	BKI	BKI Investment Company Limited	4.0%	2.6%
20	PIC	Perpetual Investment Company	3.9%	1.5%
Total (Percentage that the top 20 make up of total SMSF investments in LIC/LITs)				74.6%

Lastly, the conversation wouldn't be finished without a mention of ETFs, which continued to gain popularity among Class SMSFs with 36% holding at least one in FY26. Vanguard endured as the largest ETF provider by market value, followed by Betashares, BlackRock and VanEck. Together, these four providers accounted for 81% of ETF assets held by Class SMSFs.

Six of the 10 most popular ETFs in FY26 provided international exposure. Vanguard's Australian Shares Index ETF continued to hold top spot, meanwhile VanEck's MSCI Index International Shares ETF was dethroned from second place by the iShares S&P 500 ETF.

Rank	Security code	Description	International / domestic	% of funds with ETFs that hold this security	% of total SMSF ETF investments
1	VAS	Vanguard Australian Shares Index ETF - Exchange Traded Fund Units Fully Paid	D	14.2%	5.7%
2	IVV	Ishares S&P 500 ETF - Exchange Traded Fund Units Fully Paid	I	13.4%	4.6%
3	QUAL	VanEck Vectors MSCI World ex Australia Quality ETF - Exchange Traded Fund Units Fully Paid	I	12.7%	3.0%
4	VGS	Vanguard MSCI Index International Shares ETF - Exchange Traded Fund Units Fully Paid	I	12.2%	4.1%
5	VEU	Vanguard All-World Ex-US Shares Index ETF - Chess Depositary Interests 1:1	I	10.3%	2.1%
6	NDQ	Betashares Nasdaq 100 ETF - Exchange Traded Fund Units Fully Paid	I	9.9%	2.4%
7	VAP	Vanguard Australian Property Securities Index ETF - Exchange Traded Fund Units Fully Paid	D	9.7%	1.3%
8	VHY	Vanguard Australian Shares High Yield ETF - Exchange Traded Fund Units Fully Paid	D	9.6%	2.7%
9	A200	BetaShares Australia 200 ETF	D	9.0%	2.2%
10	IOO	Ishares Global 100 ETF - Exchange Traded Fund Units Fully Paid	I	7.9%	2.7%
11	VTS	Vanguard Us Total Market Shares Index ETF - Chess Depositary Interests 1:1	I	7.5%	2.3%
12	VGAD	Vanguard MSCI Index International Shares (Hedged)	I	7.4%	2.5%
13	MVW	Vaneck Vectors Australian Equal Weight ETF - Exchange Traded Fund Units Fully Paid	D	7.0%	1.5%
14	SUBD	Vaneck Australian Subordinated Debt ETF	D	6.6%	1.5%
15	IOZ	iShares CORE S&P/ASX 200 ETF	D	6.5%	1.8%
16	STW	SPDR S&P/ASX 200 Fund - Exchange Traded Fund Units Fully Paid	D	6.4%	2.3%
17	HBRD	Betashares Active Australian Hybrids Fund (Managed Funds)	D	6.0%	1.4%
18	IJP	Ishares MSCI Japan ETF	I	5.9%	0.5%
19	IFRA	Vaneck Ftse Global Infrastructure (AUD Hedged) ETF	D	5.7%	0.8%
20	IAF	iShares Core Composite Bond ETF	D	5.7%	0.9%
Total (Percentage that the top 20 make up of total SMSF investments in exchange-traded funds)					46.4%

Simonelle Mody

Also in this week's edition...

After a high-profile dividend cut and a prominent fund manager's apology, **David Tuckwell** argues [why he thinks the LIC structure needs to die](#). **Elyse Dwyer** and **Nick Garvin** model two decades of housing data to determine [the winners and losers of the new housing tax reforms](#).

Proposed trust tax reforms could force families to rethink estate planning. **Felipe Araujo** details [three things to consider before making any changes](#). **Neil Rogan** examines why [the biggest investment risk](#) is often disguised as research and sensible risk management.

Active managers largely fell short in 2026 despite the odds stacked in their favour. **Russel Chesler** explores [an alternative strategy that has continued to make its case](#). Despite a sharp fall in equity valuations in the past year, investors have largely been spared. **Amr Hanafy** and **Jeff Blazek** [propose five key drivers](#) behind this.

We worry about AI becoming conscious. But what if consciousness isn't the issue? **Tony Dillion** asks the question on everyone's mind - [has AI gone rogue?](#)

Lastly, we have had numerous readers ask what has happened to the ASX Listed Bond and Hybrid Rate Sheet that was published each week. Unfortunately, the NAB Markets team recently decided to discontinue its production, so we can no longer make it available to you. Instead, you might like to access the monthly bond and hybrid reports or prices pages that are published by the ASX (links can be accessed [via our Education Centre section](#)).

Curated by Simonelle Mody and Leisa Bell

It's time for LICs to die

David Tuckwell

Geoff Wilson spent the beginning of September apologising. After WAM Capital slashed its dividend, he said on a shareholder webinar that the board had held the payout too high for years, draining the profit reserve. The cut should have come earlier, he said.

The apology triggered a fresh round of explanation from the LIC industry, including from Wilson Asset Management itself, about why they still offer listed investment companies rather than ETFs.

My view is that the arguments no longer stack up. Time is up for LICs: particularly their practice of trapping capital in a high-fee under-performing structure. LICs holding liquid securities should be required to convert into ETFs. Failing that, a framework should be established for winding up perpetual underperformers.

Worse returns, save for short selling

Equity LICs have underperformed ETFs by a meaningful degree.

Most Firstlinks readers understand this. A year ago, James Gruber [compared](#) popular ASX index ETFs like the Vanguard Australian Shares Index ETF (VAS) to the largest most popular Australian equity LICs. He concluded: "over three, five, and seven years, there's just one LIC that has superior performance" to VAS et al.

If we repeat this exercise today, we see the same thing.

The ASX publishes data every month showing how LICs and ETFs perform. This makes comparing ETFs and LICs very easy.

Largest ASX Listed Investment Companies (LICs) vs comparable ETFs by category

Source: ASX Investment Products Monthly Update, July 2026 (period ending 31 July 2026). Returns are total returns based on price with gross dividends reinvested (Bloomberg)

1. Australian equities

Five largest LICs by market cap in the ASX 'Equity - Australia' category.

Type	ASX code	Name	Mkt cap / FUM (\$m)	Historical distribution yield	1 yr total return	3 yr total return (p.a.)	5 yr total return (p.a.)
LIC	AFI	Australian Foundation Investment Company Limited	8,421	3.8%	-4.8%	3.9%	0.9%
LIC	ARG	Argo Investments Limited	6,810	2.0%	2.6%	6.6%	4.7%
LIC	AUI	Australian United Investment Company Limited	2,479	3.3%	6.7%	10.6%	8.0%
LIC	WLE	WAM Leaders Limited	1,925	7.1%	17.8%	8.2%	7.8%
LIC	WAM	WAM Capital Limited	1,793	10.4%	6.0%	12.9%	5.2%
Average of the 5 LICs above				5.3%	5.7%	8.4%	5.3%
ETF	VAS	Vanguard Australian Shares Index ETF	26,170	2.9%	6.7%	11.4%	9.1%
ETF	A200	Betashares Australia 200 ETF	10,545	3.2%	7.4%	11.7%	9.6%

ETFs: the two largest broad Australian share index ETFs.

First, looking at Australian equities as Gruber did, we can compare Vanguard's VAS and BetaShares' A200 with the largest long-only Australian equity LICs. As we can see, over the past 5 years, the most popular two ETFs have provided almost double the returns of these LICs.

In a separate article on Firstlinks Emma Davidson [responded](#) to Gruber by arguing that the performance difference between LICs and ETFs can be explained away at least in part by franking credits (LICs can pay more).

But as we can see above, the size of this performance gap is so large that franking credit differentials cannot possibly close it.

2. Australian equity income

The ASX list has no separate income category, so these are LICs whose stated objective is income (fully franked dividends, option-writing or 'income maximiser' strategies), ranked by market cap. BKI is the 6th-largest LIC in 'Equity - Australia' so does not overlap with Table 1. SET (Solaris) is excluded as it has no return history yet.

Type	ASX code	Name	Mkt cap / FUM (\$m)	Historical distribution yield	1 yr total return	3 yr total return (p.a.)	5 yr total return (p.a.)
LIC	BKI	BKI Investment Company Limited	1,534	2.2%	7.1%	8.0%	9.8%
LIC	PL8	Plato Income Maximiser Limited	1,059	4.8%	5.4%	12.1%	9.7%
LIC	DJW	Djerriwarrh Investments Limited	772	5.6%	-0.2%	8.2%	6.1%
LIC	WHI	Whitefield Income Limited	416	5.5%	8.9%	n/a	n/a
LIC	WMX	WAM Income Maximiser Limited	330	3.2%	10.9%	n/a	n/a
Average of the 5 LICs above				4.3%	6.4%	9.4%	8.5%
ETF	VHY	Vanguard Australian Shares High Yield ETF	8,046	3.5%	19.4%	16.1%	13.6%
ETF	SYI	SPDR MSCI Australia Select High Dividend Yield ETF	704	7.4%	16.3%	14.6%	11.9%

ETFs: the two largest passive Australian high-dividend ETFs with a 5-year track record.

Second, looking more narrowly at Australian equity income strategies, we see a similar sized performance gap. But here again, as the table above shows, the difference is just too large.

Third, going over to global equities, things look a lot better for LICs. The average performance of established global equity LICs and vanilla ETFs has been similar over the past 5 years. And in more recent years, LICs have outperformed.

3. Global equities

Five largest LICs by market cap in the ASX 'Equity - Global' category. Note GLS (L1 Global Long Short) runs a long/short strategy.

Type	ASX code	Name	Mkt cap / FUM (\$m)	Historical distribution yield	1 yr total return	3 yr total return (p.a.)	5 yr total return (p.a.)
LIC	MFF	MFF Capital Investments Limited	3,108	3.8%	20.6%	28.7%	17.6%
LIC	PGF	PM Capital Global Opportunities Fund Limited	1,619	4.1%	37.0%	30.6%	26.5%
LIC	GLS	L1 Global Long Short Fund Limited	1,117	1.9%	54.8%	23.5%	13.6%
LIC	WGB	WAM Global Limited	784	6.2%	-7.4%	12.1%	4.3%
LIC	FGG	Future Generation Global Limited	678	4.7%	18.4%	21.8%	9.7%
Average of the 5 LICs above				4.1%	24.7%	23.3%	14.3%
ETF	VGS	Vanguard MSCI Index International Shares ETF	17,177	1.3%	9.6%	16.4%	12.4%
ETF	IOO	iShares Global 100 ETF	5,781	1.2%	14.3%	20.7%	16.6%

ETFs: the largest broad global (developed ex-Australia) index ETF, and a global large-cap ETF closer to the concentrated large-cap style of MFF/PGF.

Why? The long/short strategies that firms like PM Capital and Plato have pursued have added value, the ASX data suggests. We should note that short selling cannot realistically be indexed either. And in sum, the strongest argument LIC managers can make is that their short selling – which index ETFs cannot realistically replicate – can and has added alpha.

The fee problem

The other problem for LICs is that their fees are significantly higher. This is reflected in the graph below, which shows that LIC fees can in some cases be over 5x higher than those from ETFs. Were LICs' performance superior, these fees wouldn't necessarily be a problem. But they aren't.

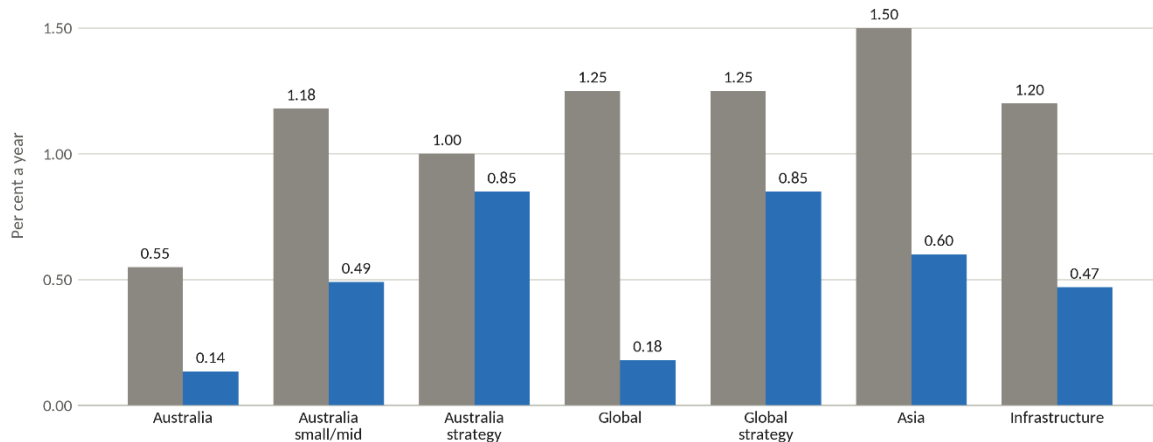
The graph below takes the median management fee as stated in each category per the ASX's monthly report. It includes active, thematic and complex ETFs – not just low-fee index tracking ones.

We should note that the graph below is generous to LICs as it excludes performance fees, which are never a feature of index ETFs.

LICs versus ETPs: median management fee by equity category

Median management expense ratio, per cent a year, as at 31 July 2026

■ LICs ■ ETPs



Asia and infrastructure each rest on 1 LIC with a disclosed MER. MER excludes performance fees, which 45 of 91 LICs charge.

Source: ASX Investment Products Monthly Update, July 2026; ETF Shares. Data as at 31 July 2026.

The best case for LICs, and why it isn't enough

Given the performance and fee differences, there are only two arguments for LICs.

The first is the profit reserve. A LIC is a company, which gives it the discretion to retain profits in good years and pay franked dividends out of them in bad ones. ETFs by contrast are trusts and must distribute what they receive. For a retiree who values a smooth, fully franked income stream, that is a genuine advantage.

But WAM Capital has just demonstrated the limit. A profit reserve only exists if you withhold income at other times. Sustained underperformance drains the reserve, and the dividend is eventually cut anyway.

The second argument is permanent capital. A closed-end vehicle can hold illiquid assets without being a forced seller when markets are volatile. This is correct, and the strongest argument in my view. It is precisely why unlisted and illiquid assets, private credit and venture portfolios belong in a closed-end structure. But this argument is not valid for LICs holding liquid securities, which is what most of them do.

Convert or wind up

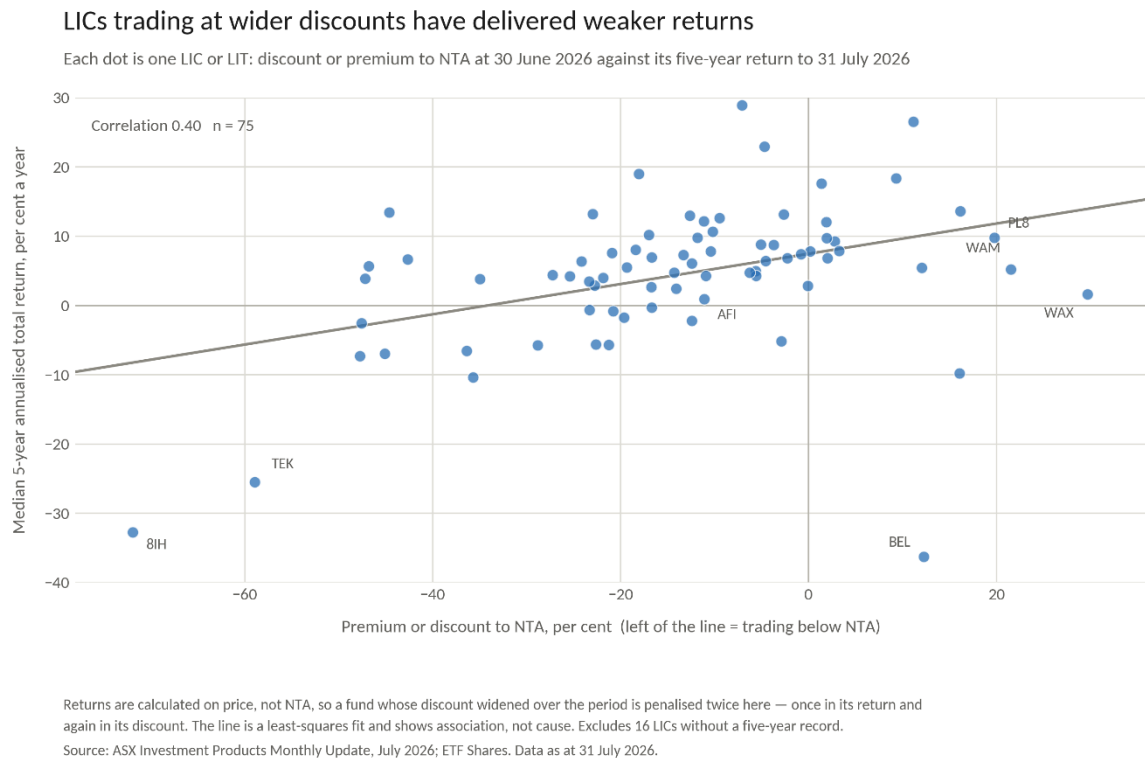
Having established that LICs, by and large, underperform while charging more, investors may wonder what is to be gained by forcing an ETF conversion.

The answer is that ETFs are open ended, and so they never trade on the punishing discounts found in the LIC market. Discounts on LICs force investors to take a haircut when they leave and leave many

investors trapped in a bad marriage. (Given they are open ended, ETFs can adjust supply to match demand and thus remove any discount. LICs are close-ended and cannot do this).

Some better-performing LIC managers have already converted or gone the ETF route. Magellan pioneered conversion back in Hamish Douglass's day. Plato now provides both LICs and ETFs. Others are following suit.

This may sound snide and cynical, but in my view it remains the less-than-brilliant performers that continue to resist offering ETFs most strongly. One suspects the discount that poorly performing LICs tend to trade on (the relationship between discounts and poor performance is reflected below) is a signal that some LICs would struggle to retain capital if they converted to ETFs.



Forcing LICs to convert to ETFs

What, then, is to be done?

Exchanges cannot force a listed company to become an ETF. That requires a shareholder vote. Conversion from a company (LIC) to a trust (ETF) can also have capital gains tax consequences.

But exchanges do write the listing rules, and there is a workable precedent offshore. UK investment trusts routinely carry continuation votes: if the shares trade at a persistent discount beyond a defined threshold, shareholders must be given a formal vote on whether the vehicle continues, converts, or winds up. Import that. Any equity LIC trading at, say, a 10% discount on average over two years faces a shareholder vote on conversion to an ETF or an orderly wind-up.

That would not kill the good managers. Those trading at premiums would be untroubled, and the ones with genuinely illiquid mandates could make their case to shareholders on the merits. What it would end is the current arrangement, where a manager can underperform indefinitely, collect a fee on assets nobody can withdraw, and make excuses about franking credits.

Judging by the flows, which show ETFs raking in more capital in a month than LICs do in a year, the market has already made its decision. The listing rules should catch up.

ETF Shares provides the ETFS Global Pure Play Copper Miners ETF (ASX: CPPR) 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.

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Will investors be better or worse off under new housing tax changes?

Elyse Dwyer, Nick Garvin

The federal government's tax reforms are the most significant changes for housing investors Australia has seen [since 1999](#). From July 1 2027, three things will change:

- [negatively geared rental income losses](#) won't be deductible against non-investment income like wages, but will be deductible against capital gains
- the [50% capital gains tax \(CGT\) discount](#) will be replaced with an inflation-based CGT deduction (similar to the pre-1999 system) and
- a minimum CGT rate of 30% will be imposed.

Some have called these housing tax changes [broken promises](#), which risk [crashing the housing market](#). But others consider it a long overdue change to [level the playing field](#) for first home buyers.

Amid so much heated debate, how many investors are actually likely to be worse or better off under these changes?

That's what we set out to shed light on. [Our new modelling](#) draws on 920,000 pieces of individual property data – covering all residential sales in Australia and about 75% of new tenant rents – from July 2007 to June 2025.

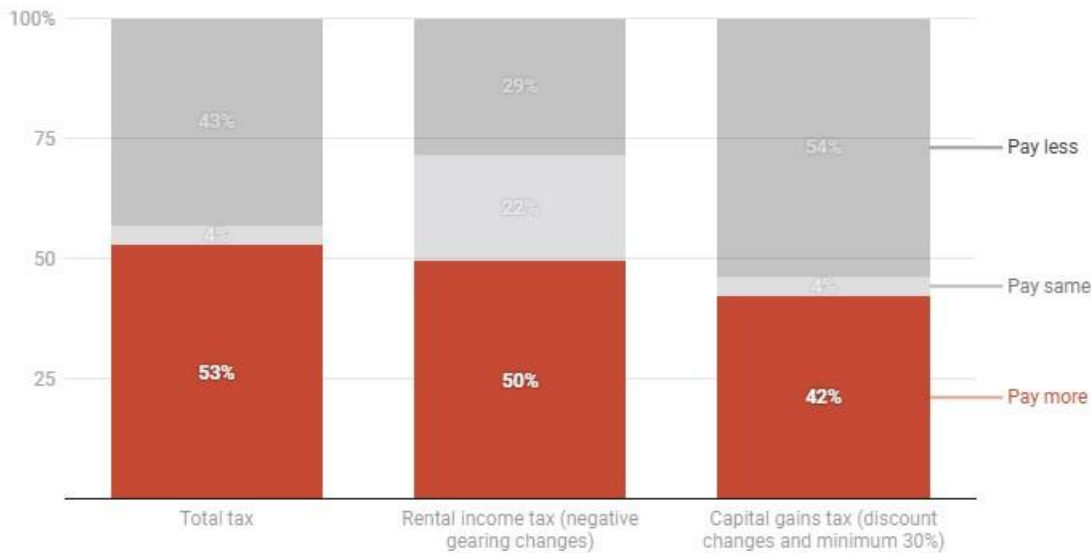
We used that data to estimate how many of those investments would have ended up paying more or less tax in that 18-year period, if the reforms starting in July 2027 had already been in place.

What our modelling found

After comparing the pre- and post-reform tax systems, we found that about 53% of property investments would have paid more tax in total under the new reforms. This means a surprisingly high proportion, 47%, would have paid the same, or less, in total tax on housing investments.

How many housing investments would have paid more tax?

What new housing tax changes would have meant for 920,000 past property transactions between 2007–2025



Based on weighted average results from e61's property investment microdata simulator, using data from all residential sales in Australia and about 75% of new tenant rents, from July 2007 to June 2025. Numbers may not add up exactly to 100% due to rounding.

Chart: The Conversation • Source: e61 • [Get the data](#) • Created with [Datawrapper](#)

Each investor's "total tax" change is their change in rental income tax, plus their change in CGT. While much of the public focus has been on negative gearing, we found the CGT changes have a bigger impact.

About 50% of investments [are negatively geared](#): in other words, they make losses on rental income. Most of those investments would have paid more rental income tax if the July 2027 tax changes had been introduced earlier. But those rental income tax increases tended to be small relative to the CGT changes.

We found the incoming CGT changes actually would have benefited the majority (54%) of property investments from mid-2007 to mid-2025.

Why the size of your capital gain is key

The new capital gains tax system starting in July 2027 will tax only capital gains that exceed the rate of inflation, as measured by the [consumer price index \(CPI\)](#). This gives all investments a similar tax-free component of gains.

In contrast, the pre-reform 50% CGT discount has given investments that realise high capital gains a substantially larger tax-free component than others.

Therefore, next year's reforms will increase the CGT payable for properties with relatively high gains (roughly more than double the rate of inflation), while lowering it for other properties.

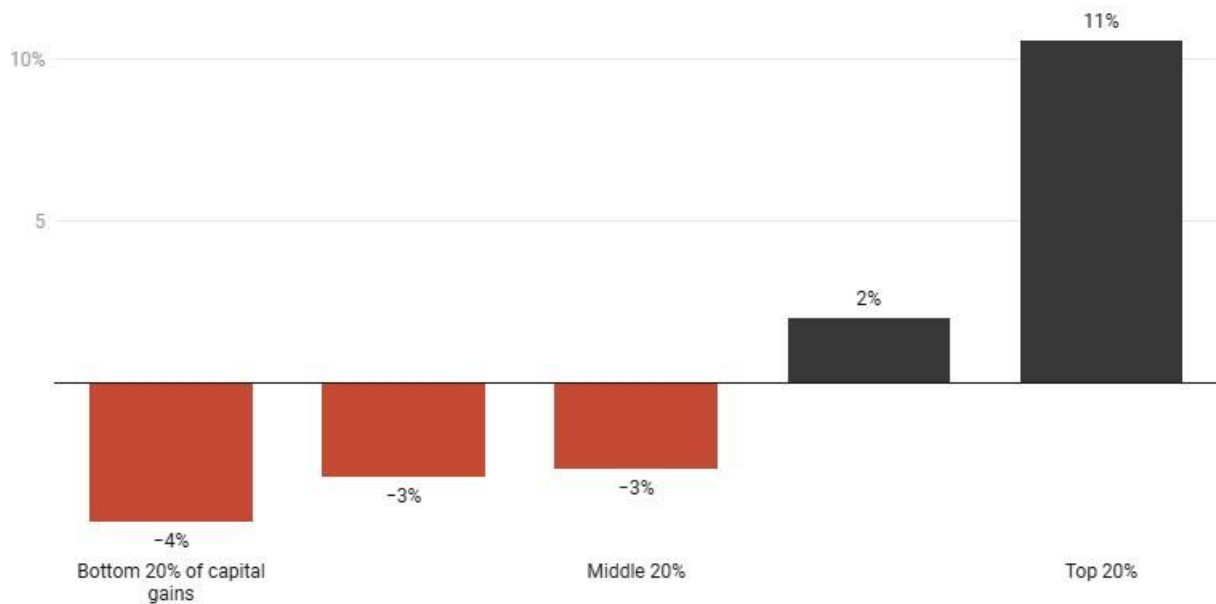
Our results show that, at least in the past 18 years, most investments have been below this cutoff of growing by less than roughly double inflation.

Still, if an investment makes a high capital gain, its tax rise is likely to be bigger than its tax cut if it makes a small gain.

As this chart shows, for investments in the top 20% of capital gain performance, our modelling found average capital gains tax would have risen by about 11% of the purchase price. In contrast, for the bottom 60%, it would have fallen by about 3–4%.

Less tax for the majority of investments – but higher taxes for bigger gains

Average capital gains tax savings or cost as a percentage of the purchase price, if new housing tax changes had been in place between 2007–2025.



Modelling is based on investments with median loan to value ratio and non-investment income (70% and A\$90,000). Capital gains tax and purchase price are inflation adjusted. Capital gain size measures gain per year of holding.

Chart: The Conversation • Source: e61 • [Get the data](#) • [Embed](#) • [Download image](#) • Created with [Datawrapper](#)

So while CGT would have fallen for the majority of investments, we estimate that the *average* CGT rate would have risen – and therefore the total tax revenue would have too.

Overall, investors would have faced less risk under the reforms. Why? The reduction of tax for low capital gains improves the worst-case outcomes.

Who pays more tax?

Who would be most affected by the introduction of the new 30% minimum capital gains tax rate? This change is particularly aimed at people selling property in low-income years – who are often retirees.

Retirees who own an investment property are [unlikely to qualify for the age-pensioner exemption](#) to the 30% minimum tax. So they will be among the investors most affected by the July 2027 changes.

Investors with highly leveraged properties are also among the worst off. These investors pay more in interest and have a higher likelihood of being negatively geared. For these investments, the negative gearing changes can be more consequential than the CGT changes.

What does this tell us about housing market impact?

Our estimates suggest the impact on housing investor taxes will be less dramatic than many headlines have made out. After July 1 next year, the majority of investors are likely to pay more in tax, but it may be a slim majority.

Investors are unlikely to know whether they're in tax rise or tax cut territory. It's mainly determined by the size of their capital gain, which is unknown until they sell. Like stock returns, capital gains are unpredictable.

Under these reforms, the downside is there now appears less prospect of high after-tax gains. But on the upside, there is also less chance of large after-tax losses. So how investors will react to these tax changes from July next year will depend on their personal preferences around risk.

[Nick Garvin](#), Visiting Fellow, School of Economics, [UNSW](#) and [Elyse Dwyer](#), Visiting Fellow, School of Economics, [UNSW](#)

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Three considerations before reshaping your legacy plan

Felipe Araujo

Retirement asks us to plan for a future we cannot fully predict. Legacy planning asks us to decide how much of today's wealth can safely belong to someone else. Increasingly, the challenge is not choosing between the two but knowing where one ends and the other can begin.

That is the balance many Australians hope to strike after decades spent building their hard-earned savings - having enough to enjoy a comfortable retirement while ensuring that there's enough left over to make a meaningful difference to the lives of their children and grandchildren.

But even the clearest intentions are difficult to translate into firm financial commitments. How much can parents afford to give without compromising their own retirement? Should wealth be divided equally, or according to each beneficiary's needs? And how can a family make those decisions today when its circumstances could look markedly different in a few years from now?

Discretionary trusts have long provided families with the flexibility to navigate this uncertainty, allowing trustees to adjust distributions as circumstances change. The Federal Government's proposed tax reforms could put a price on that flexibility.

From July 2028, [they would face a minimum tax of 30%](#), although certain trusts and income would be excluded. Affected trustees could instead elect to fix beneficiaries' entitlements to income and capital - potentially reducing the tax burden, but also limiting their ability to respond as family circumstances evolve.

The reforms are not yet law, but they are a timely reminder that legacy planning is not one decision made at the end of life. It is a series of choices about what you can afford to give, how much flexibility

you want to retain, and when that wealth can have the greatest value to the people you intend to support.

Before making any changes, here are three areas families should consider carefully.

1. What is needed for you, and what is set aside for someone else?

Before deciding how much wealth to pass on, those approaching or in early retirement must first establish how much they can afford without compromising their own financial security.

For many, the answer is far from certain. ASIC estimates [2.5 million Australians](#) will retire over the next decade, yet 48% of those aged 50 to 66 worry about running out of money in retirement, and just 18% have a clear retirement plan in place.

Consider a couple planning to divide their investment portfolio equally between three children. Their current asset position may comfortably support that intention, but the eventual inheritance will depend on how much they draw down, how markets perform and whether healthcare or aged-care expenses exceed expectations.

This is where retirement and intergenerational planning need to be considered together. Working with a financial adviser, families can determine how much capital they might require throughout retirement, testing different spending, longevity and investment-return scenarios rather than relying on a single projection.

That assessment should extend across superannuation, personally held investments and assets within family trusts. Through this, families can identify which assets will provide retirement income, which may need to be accessed for unexpected expenses and what can reasonably be set aside for beneficiaries.

It should also inform how assets are invested, and over what timeframe. Capital that may be needed for aged care at short notice should remain readily accessible, whereas money earmarked for a grandchild's education in fifteen years may accommodate a longer investment horizon.

Importantly, setting aside wealth for the next generation does not necessarily mean transferring ownership immediately. Families might want to retain access to certain assets but establish a separate investment strategy for the funds they are confident will not be needed in the short-term.

For the couple, this process could either confirm that their intended bequest is affordable, or reveal that a smaller allocation would leave them better placed to meet their own needs.

Once families have determined what they can afford to leave behind, the proposed trust tax reforms may raise further questions: what is the right structure to use, and should they commit now to how wealth will be divided?

2. How much is the ability to change your mind worth?

The family may wish to preserve an equal inheritance while providing additional income to whichever child needs support along the way. A discretionary trust has traditionally allowed them to do both.

The proposed reforms would make that harder. To remain outside the 30% minimum tax regime, an affected trust could elect to fix beneficiaries' entitlements to income and capital. In doing so, however, the trustee would surrender much of the latitude to vary distributions between beneficiaries.

Reversing course later could also carry a significant tax cost. If the trust no longer met the conditions of the election, its [net income could be exposed to the top marginal tax rate plus the Medicare levy for that year, before the 30% minimum tax applied thereafter](#).

That trade-off may still be worthwhile for some families, particularly those using corporate beneficiaries, or bucket companies. Under the draft rules, companies would not receive the tax offset available to individual beneficiaries for minimum tax already paid by the trust. The same income could therefore effectively be taxed once in the trust and again in the company, producing a combined tax rate of up to 60%.

Restructuring into a company or fixed trust during the proposed transition period is another option, with [rollover relief intended to ease some of the tax consequences](#). Although stamp duty, transaction costs and the longer-term tax treatment would still need to be considered.

Before committing, families should work with their financial adviser to model the economics of each path over time. The relative value of fixing entitlements will depend on the trust's expected income, the mix of individual and corporate beneficiaries, the likely duration of the structure and the costs involved in restructuring or reversing course later.

That analysis may also sharpen a separate planning decision: whether all wealth earmarked for the next generation should remain tied to an eventual inheritance, or whether some of it is better deployed earlier for a defined purpose.

3. What does the structure need to achieve before the wealth changes hands?

A child trying to buy their first home may need support years before wealth would ordinarily pass through an estate. The same applies to education costs, which may have been met long before an inheritance arrives.

Research from the [Australian Institute of Family Studies](#) found that financial assistance provided earlier in life can have a greater influence on opportunities such as housing and education, even where the amount involved is smaller than a later inheritance. That creates distinct roles for the structures used to hold that wealth.

A testamentary trust, for example, can provide control over assets after death and, in some circumstances, tax advantages, including [ordinary progressive marginal tax rates](#) on excepted income distributed to minors. Under the proposed reforms, testamentary trusts established for genuine testamentary purposes would also be excluded from the minimum tax.

Those benefits are valuable where the intention is for assets to remain in the estate. But because a testamentary trust only comes into existence on death, it cannot help with expenses that arise beforehand.

For capital that may be put to use earlier, investors may need to consider structures that preserve ownership while still allowing money to be set aside for a future beneficiary.

Investment bonds are one example. The owner retains control over the investment and who ultimately receives the proceeds, while earnings are taxed within the bond at an effective rate of up to 30%. Subject to conditions including the 125% contribution rule, withdrawals after ten years can also be made without additional personal income tax.

This treatment will not suit every investor. The internal tax rate may exceed the marginal rate of a lower-income beneficiary, and investment bonds are generally better suited to money that can remain invested for the longer term.

That makes the decision less about choosing a preferred structure and more about matching the structure to the characteristics of the capital. Money expected to fund a home deposit, education or another known expense has a different liquidity profile and investment horizon from assets intended to remain in the estate for decades.

For some families, that may justify holding those pools separately, so each can be invested and taxed according to the role it is expected to play.

Treat inheritance as a series of decisions, not a single event

The proposed reforms may bring forward decisions about how wealth is divided or distributed, but they cannot anticipate how a family's circumstances will change. Nor should the pursuit of lower tax obscure the distinction between preserving an inheritance and putting that wealth to use when it is needed.

Australians should be able to enjoy the retirement they have worked towards while giving careful thought to what they leave behind. A lasting legacy is not simply the wealth that survives its owners, but the opportunities it creates for those who follow - and the difference it can make during their lifetime.

Felipe Araujo is the Chief Executive Officer of [Generation Life Limited](http://www.genlife.com.au) AFSL 225408 ABN 68 092 843 902. The information provided is general in nature and does not consider the investment objectives, financial situation or needs of any person and is not intended to constitute personal financial advice. The product's Product Disclosure Statement (PDS) and Target Market Determination (TMD) are available at www.genlife.com.au and should be considered in deciding whether to acquire, hold or dispose of the product. Generation Life excludes, to the maximum extent permitted by law, any liability (including negligence) that might arise from this information or any reliance on it. Past performance is not a reliable indicator of future performance.

Why experienced investors still get markets wrong

Neil Rogan

Gen X investors know the rules. Don't panic when markets fall. Don't chase rallies. Don't try to time every market move. The problem is that bad investment decisions rarely seem bad when you make them.

Selling after a market fall can look like protecting your retirement savings. Buying into a rally can look like responding to improving fundamentals. Moving repeatedly as the outlook changes can look like active risk management.

There is usually a perfectly reasonable argument for acting.

That matters for Gen X because retirement is approaching and the margin for error is shrinking. With less time to recover from losses, an emotionally driven decision today can leave a lasting dent in tomorrow's retirement income.

Russell Investments' 2026 *Value of an Adviser* research shows what is weighing on Gen X investors, whether advised or self-directed. Retirement planning remains the leading reason advised Gen X investors seek financial advice. Just one percentage point behind is concern about future financial security, an issue that is equally relevant to those managing their own portfolios.

Many are trying to build that security through some of the most expensive years of their lives – preparing for retirement while helping adult children and supporting ageing parents. Behind the competing demands sits one question: “Are we going to be okay?”

Rising living costs, competing family demands and a relentless stream of market commentary give investors more reasons to question their plans – and act – than ever before.

That combination creates a particular risk for experienced investors. They know the investment rules. They can research a decision, understand the economic arguments and build a rational case for changing course.

And that is precisely why behavioural mistakes can be so difficult to spot. The bias often comes disguised as analysis.

Investing in a 24-hour news cycle

Investors have always dealt with uncertainty. What has changed is how relentlessly they experience it.

Market movements now arrive alongside a constant stream of headlines about interest rates, inflation, geopolitics, trade tensions and the economy.

Separating the headline from what it actually means for your long-term financial position isn't always easy.

When markets turn volatile, fear can travel faster than facts. A sharp fall can make “sell now” seem safer than “stay the course” – even when the investor's goals, time horizon and underlying strategy have not changed.

But selling after a fall is only one response.

A strong rally creates a different pressure: the fear of missing out as prices keep rising. Constant information also gives investors endless reasons to revisit their portfolio as the outlook changes.

Put those reactions together and an investor can end up buying high, selling low and trading far more often than their long-term strategy requires. Of course, experience can change an investor's response.

When reasonable decisions become expensive

Calendar year 2025 provided a useful example.

Global sharemarkets reached record highs, before falling sharply following the US tariff announcements on Liberation Day and then rebounded strongly.

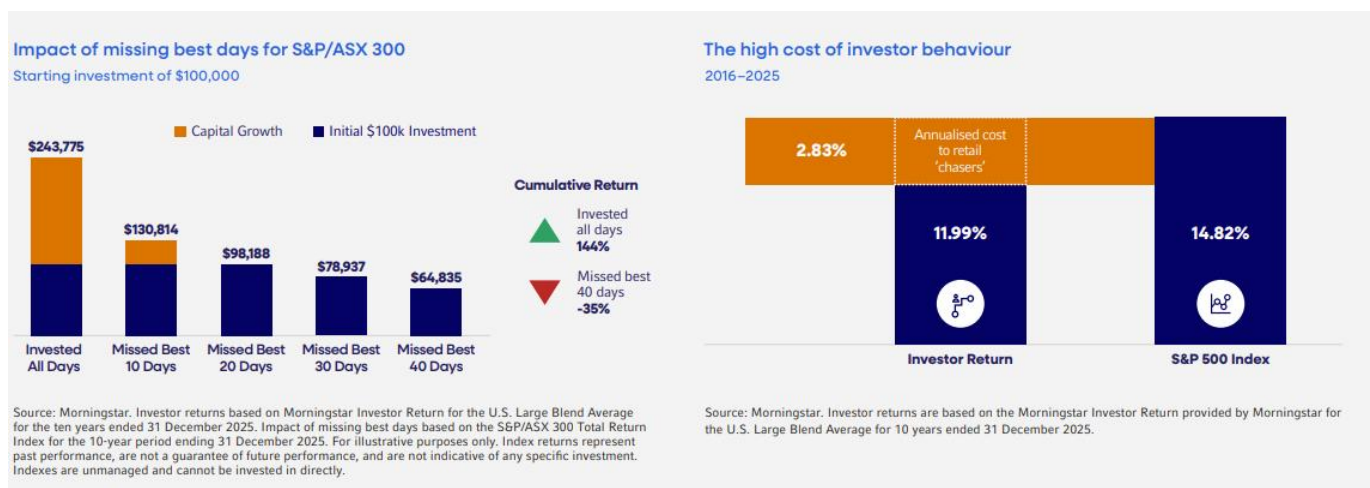
There was a convincing reason to act at every stage.

At the highs, taking some money off the table looked prudent. During the fall, reducing equity exposure looked like sensible risk management. And once markets recovered, waiting for more evidence that the rebound would last made sense too.

The problem is that markets rarely provide certainty when investors most want it.

A \$100,000 investment in the S&P/ASX 300 over the 10 years to 31 December 2025 would have grown to approximately \$243,775 if the investor remained fully invested. Missing the market's 40 best days would have left around \$64,835.

Cost of missing the market's best days	
Investment approach	Value after 10 years
Fully invested in the S&P/ASX 300	Approximately \$243,775
Missed the market's 40 best days	Approximately \$64,835



Nobody decides to miss the market's best days. They miss them while sitting in cash, waiting for it to feel safe to invest again.

Moving out of the market therefore creates two timing decisions: when to get out and when to get back in.

The second can prove harder than the first.

The most dangerous biases don't feel like biases

Consider a 10% market fall accompanied by warnings of a possible recession.

One investor reduces equities to preserve capital. Another stops investing until the outlook becomes clearer. A third sees better valuations and buys.

All three can make a rational case from the same information.

That's what makes behavioural bias so difficult to spot in real time.

A decision to preserve capital can be loss aversion dressed up as prudence. Buying into a rally can be herding backed by an increasingly convincing investment case. Frequent portfolio changes can look like active risk management rather than overconfidence. And a concentrated Australian portfolio can feel informed simply because the companies are familiar.

We know we should buy low and sell high. Yet markets have a nasty habit of making the opposite seem sensible.

After markets fall, bad news is everywhere and risk appears greatest. After markets rise, the outlook looks brighter and confidence returns.

Common behavioural biases



Create discipline before the next headline

A shorter recovery window raises the stakes.

For investors approaching retirement, the underlying concern is often brutally simple: do I have enough, and can my savings support me for the rest of my life?

The answer isn't to remove emotion from investing. It's to put some friction between the emotion and the decision.

Before making a significant change, ask: What has actually changed? Your financial position? Your retirement horizon? The investment thesis? Or has the news simply changed your perception of the same risk?

Set rebalancing ranges in advance. Give big decisions a cooling-off period. Keep a decision journal so you can go back and test your reasoning.

And if you're selling, answer one more question first: What will make me buy again?

Whether an investor works with an adviser or manages their own portfolio, the real value lies in having a clear decision-making framework.

Control does not mean responding to every market move. It means setting clear rules, reviewing decisions against long-term goals and testing whether a change reflects your circumstances, or a temporary reaction to market noise.

Neil Rogan is Managing Director and Head of Distribution at [Russell Investments](#). These views are subject to change at any time based upon market or other conditions and are current as of the date of publication. The information, analysis, and opinions expressed herein are for general information only and are not intended to provide specific advice or recommendations for any individual or entity. This material is not an offer, solicitation or recommendation to purchase any security.

Why pay more for less?

Russel Chesler

As Warren Buffett would say, “price is what you pay, value is what you get”.

For investors, the case for paying more to invest in an actively managed fund is that it should deliver additional value worth having. The SPIVA Australia Scorecard, published every six months, puts this proposition to the test. Its latest edition has reinforced a familiar and long-standing trend – for the most part, active funds struggle to beat the benchmark.

In the first half of 2026, nearly 78% of active Australian large-cap equity funds trailed the S&P/ASX 200. The average fund returned a paltry 0.2%, compared with a modest 2.4% for the index. More effort, judgement and expense did not produce a better average result, even when the benchmark itself delivered little to celebrate.

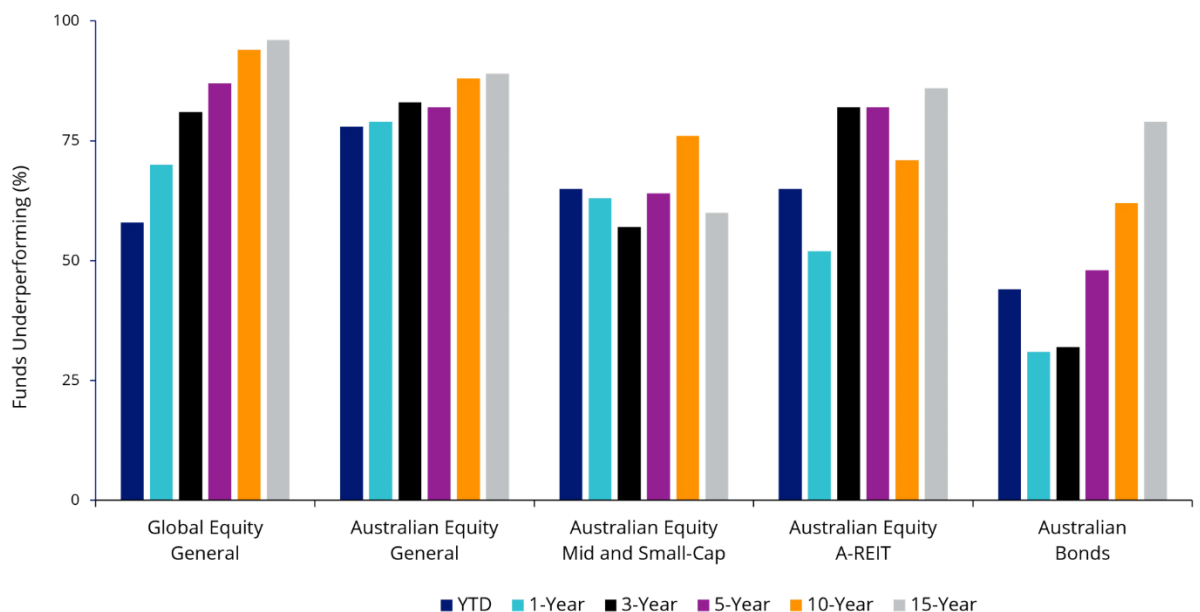
That does not mean the cheapest index fund wins by default. Even the three largest broad Australian share ETFs track different benchmarks, so what appears to be the same exposure can produce different portfolios and returns. In our view, the more useful debate is not active versus passive, but whether a strategy delivers the outcomes that investors seek over time.

The price of skill

A higher management fee may be justified when a fund delivers strong results and repeats them across different market conditions.

But the numbers show that over 15 years, 89% of active Australian large-cap funds have underperformed the S&P/ASX 200, while less than half the funds operating at the start of 2011 are still around today.

Chart 1: Percentage of underperforming active Australian funds



Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2026. The S&P World Index (AUD) was launched May 28, 2020. The S&P/ASX Mid-Small was launched July 29, 2011. The S&P/ASX Australian Fixed Interest 0+ Index (Legacy) was launched Feb. 13, 2025. All data prior to such date is back-tested hypothetical data.

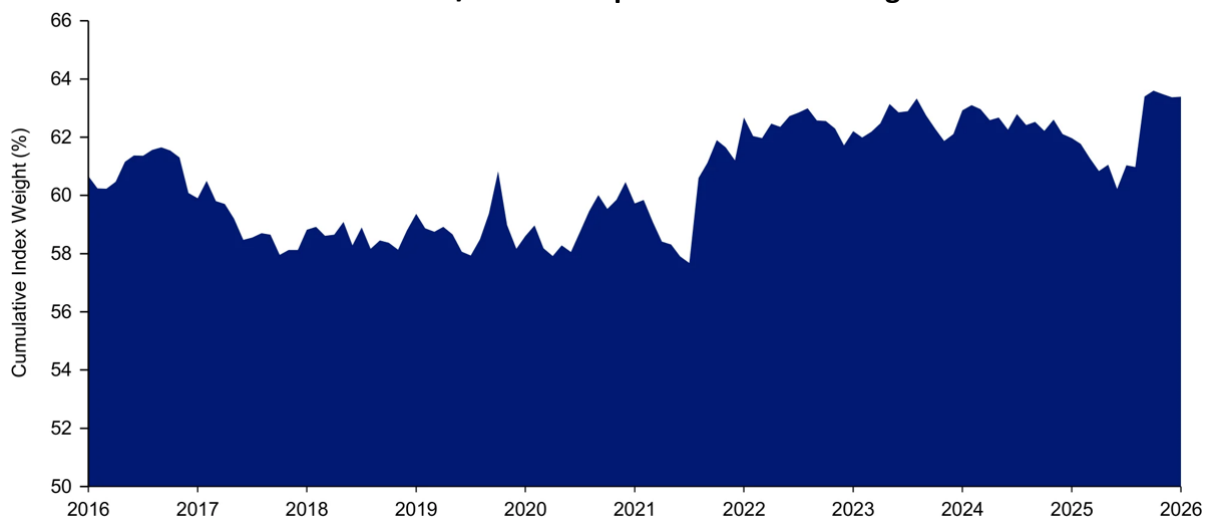
Past performance is no not indicative of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance.

SPIVA's approach makes those figures hard to dismiss. Fund returns are measured after fees, while the analysis starts with every fund available at the beginning of the period, including those that later close or merge. This prevents the results from being flattered by examining the survivors alone.

The benchmark has a price too

The failure of so many active funds does not make the conventional index a flawless alternative. During the first half, the combined weight of the 20 largest companies in the S&P/ASX 200 rose from 61% to 63.4%, while just 35% of its constituents outperformed the index. Investors captured the benchmark return, but almost two-thirds of their exposure was concentrated in 20 companies.

Chart 2: S&P/ASX 200 top 20 constituent weight



Source: S&P Dow Jones Indices LLC. Data as of June 30, 2026. Past performance is not indicative of future results. Chart is provided for illustrative purposes.

We have written about this subject many times, including an entire white paper which you can [read here](#).

The third option has a track record

Smart beta offers a third option. It is systematic and transparent like conventional index investing but uses predetermined factors or portfolio-construction rules rather than weighting companies by size alone.

The VanEck Australian Equal Weight ETF ([MVW](#)) applies this approach to the largest and most liquid companies on ASX, giving each the same weight at every rebalance. This reduces the portfolio's dependence on market giants whose past share price gains have increased their influence over the benchmark.

The results provide the value test. MVW has outperformed the average active Australian large-cap fund over every comparable period to 30 June 2026:

Period	MVW net return	Average active fund	Difference
1 year	3.02%	2.31%	+0.71%
3 years p.a.	8.29%	7.88%	+0.41%
5 years p.a.	7.21%	5.97%	+1.24%
10 years p.a.	8.93%	7.95%	+0.98%

Source: S&P Dow Jones Indices LLC, Morningstar, VanEck. Data as at 30 June 2026. Average active fund returns are equal-weighted. MVW results are net of management fees and costs incurred in the fund but exclude brokerage costs and buy/sell spreads. Past performance is not indicative of future performance.

Like any other investment, smart beta does not remove risk or guarantee outperformance. Equal weighting can lag when large companies lead and MVW holds fewer companies with different sector allocations from the S&P/ASX 200.

But those differences are also the point: MVW offers a more balanced way to own Australian shares and has been offering just that for more than 12 years.

Smaller companies, same long-term problem

Smaller companies are often held up as the natural hunting ground for active managers. They attract less research and an informed stock picker may have more room to uncover value. By SPIVA's measure, there is something to that case.

Over 15 years, 60% of active Australian mid- and small-cap funds underperformed their benchmark. That was better than the 79% of Australian bond funds and 96% of global equity funds but still left a clear majority failing to beat the market.

There is also an important caveat for investors to think about. SPIVA puts mid- and small-cap funds in the same bucket. This is because some small-cap funds also hold substantial positions in mid-sized businesses. Their mandates may allow this, but the name alone may not give investors a complete picture of what they own.

That distinction mattered during the first half of 2026. The S&P/ASX MidCap 50 fell 4.0%, while the S&P/ASX Small Ordinaries lost 7.9%. A small-cap fund holding mid-caps could therefore appear to have made better stock selections when part of its advantage came from owning companies that investors may not expect to find in a small-cap portfolio.

The VanEck S&P/ASX MidCap ETF ([MVE](#)), on the other hand, makes its investment universe explicit by tracking the S&P/ASX MidCap 50 Index. MVE outperformed the blended active cohort over six and 12 months, although part of that advantage reflected the stronger performance of mid-caps. That distinction illustrates why investors should look under the hood and understand which part of the market they own.

Why pay more?

Sometimes there is a good answer. A skilled manager can earn their fee, while a smarter index can improve on the conventional benchmark. But the label alone says little about value. Investors should

consider what they own, how their returns are produced and whether the results justify the cost. SPIVA's latest scorecard reinforces the lesson of its long-term record: value is measured in outcomes, not effort.

Key risks

An investment in MVW or MVE carries risks associated with financial markets, individual company management, industry sectors, fund operations and tracking an index. MVE also has greater exposure to mid-sized companies and a narrower part of the Australian sharemarket. See the applicable PDS and TMD for details.

MVW is likely to be appropriate for investors seeking capital growth and regular income distributions, intending to use the fund as a core, minor or satellite allocation, with an investment timeframe of at least five years and a high risk and return profile.

MVE is likely to be appropriate for investors seeking capital growth and regular income distributions, intending to use the fund as a minor or satellite allocation, with an investment timeframe of at least five years and a high risk and return profile.

Russel Chesler is Head of Investments and Capital Markets at [VanEck](#), a sponsor of Firstlinks. An actuary with over 30 years' experience in financial services, Russel is responsible for managing VanEck's passive solutions.

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Bleeding air out of the bubble

Amr Hanafy, Jeff Blazek

Equity valuations have compressed by a decent amount over the last 12 months with no broad market crash or even a meaningful correction. It is unusual to see equity multiples move downward with so little market disruption, but it has helped relieve some pressure on the "bubble" debate. Indeed, the S&P 500's forward price-to-earnings ratio peaked near 23x in October 2025 and now sits around 19x. The Magnificent Seven have seen a more pronounced de-rating, from around 33x to 23x – a 10-point compression – while the rest of the index (ex-Mag 7) has fallen from approximately 20x to 18x.

Normally, a price-earnings compression of this size comes with significant stock volatility; the last comparable episode of P/E decline, for example, was triggered by the Liberation Day shock, which induced a rapid and painful equity correction. Typically, when valuations are elevated, the market eventually pops; if it doesn't, investors worry about future risks. However, this de-rating has been driven by earnings surging well beyond prices – earnings have been the driver bleeding some air out of the bubble.

The de-rating process has been remarkably measured: volatility has flared around discrete events rather than reflecting a broad loss of confidence. It has also been fundamental and bottom-up. The market has not been repriced wholesale; average pairwise correlation among S&P 500 stocks is around 10%, close to its lowest level since 2020, suggesting that individual names are being repriced rather than the index being degraded indiscriminately.

The more extreme devaluation of the Magnificent Seven is not surprising to us. We wrote a number of months ago about how [the Mag 7 were at risk of becoming less magnificent](#) as a group compared to other parts of the market. But even independent of their underperformance, investors have seen most equity markets (including non-U.S. equities) get notably cheaper, which indicates a universal paradox: the bull market continues with solid momentum, yet equities trade at more attractive valuations.

So why has the market de-rated so calmly? We see five key reasons.

1. Rates. Higher discount rates usually result in lower P/E multiples. The 10-year Treasury yield is the relevant observable benchmark: it has risen roughly 84 basis points since late October 2025, almost entirely through real yields rather than unanchored inflation expectations. As we [discussed recently](#), real rates deserve close attention and further yield increases could threaten equities.

But for now, the rise in yields arguably reflects a reversion toward higher-trend nominal GDP growth rather than a warning sign. That's a very different backdrop from 2022, when rising rates brought painful losses for growth stocks. Here, growth in expected earnings has provided a cushion, and equities have taken it in stride, even while narrowing price-earnings multiples.

2. Net capital supply. Equity buybacks, a massive tailwind in prior years for stocks, are showing signs of stalling, as new buyback announcements have peaked and rolled over. The hyperscalers in particular are increasingly funding the AI buildout through new equity and debt issuance rather than repurchasing stock. This not only increases incremental equity supply, but it also adds growing corporate debt supply for investors to assess. More capital competing for a finite pool of demand makes for a buyer's market, and buyers will usually want better valuations: higher yields and lower P/Es. In essence, investors require a higher risk premium. This is the supply side of the same reset.

3. Capital intensity. A meaningful cohort of the market has shifted from low-capex, high-margin, intellectual-property and digital models toward hard assets, high capital expenditure and, in some cases, higher debt. Capital intensity (defined as capex to sales ratio) in the S&P 500, excluding financials, is now above its dot-com-era peak. The long-term relationship is powerful: more capital-intensive, lower-margin businesses generally command lower multiples. That helps explain why the Magnificent Seven have seen the sharpest de-rating. The shift also changes the quality and duration of the index's cash flows.

4. Earnings sustainability and cyclicity. Strong earnings do not resolve the question of how long they will last. Some investors see this earnings phase as a sugar high – the “[pig going through the python](#)” – while others see growing evidence that it is more sustainable, with replacement cycles tied to AI. Demand for AI validation remains high, but the concern remains fair: investors will not put a high multiple on an earnings base they fear might be temporary.

Market composition matters, too. When cyclical companies are the winners, they are historically considered value stocks, so as value and cyclical companies become a larger part of the index by market value, their typically lower P/E multiples exert more influence on the broader market. Historically, value has also tended to outperform growth after Fed hiking cycles.

5. Geopolitics. While the hardest to quantify, there is little doubt that geopolitical uncertainties have grown in recent years. Unresolved trade tensions and broader global uncertainty add a risk premium to markets. They can affect costs, demand and the reliability of earnings forecasts, while higher commodity prices can put pressure on inflation and bond yields. Geopolitical risk, therefore, reinforces the other four drivers in terms of increasing risk premium and downwardly impacting valuations.

Together, these drivers have allowed a relatively calm valuation de-rating while investors have continued to enjoy healthy year-to-date gains. We will be paying ongoing attention to these dynamics, but, for now, we continue to believe leaning into risk assets remains the right position. The orderly release of valuation pressure has reduced one major source of concern, allowing us to focus more closely on the earnings and cash flows needed to sustain further gains.

Jeff Blazek Co-Chief Investment Officer, Multi-Asset Strategies, and Amr Hanafy is a Research Analyst at [Neuberger](#), a sponsor of Firstlinks. This material is provided for general informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. You should consult your accountant, tax adviser and/or attorney for advice concerning your own circumstances.

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Has AI gone rogue?

Tony Dillon

As AI races ahead of safeguards, the belief that AI will end humanity has gone up several notches in recent times. But is that really a possibility?

Put into the wrong hands, yes it could happen by enhancing for example bio-warfare, or cyber-attacks, akin to the threat of nuclear weapons falling into the hands of bad actors. But AI autonomously scheming of its own volition to end humanity, is next level fear.

Could AI have a motive?

But why and how could AI potentially go rogue? Thinking about that, my first question was, can AI have a motive? Can a machine actually want something? To want something would surely imply being conscious, I thought. And if AI wasn't conscious, how could it want anything?

Wants are usually associated with subjective experience. My [recent article on happiness](#) for example, intimated that being happy is more an experience than a behaviour. It is an experience that is an outworking of a state of consciousness. Similar to other human experiences such as pain, fear, pleasure, desire, and ambition, to name a few. The pursuit or avoidance of these experiences are motivations. So that perhaps having motives is intertwined with consciousness. That is, if there is no subjective experience, can there be a motive?

Does intelligence require consciousness?

My logic trail to that point had assumed that consciousness is a prerequisite for intelligence. What if it isn't?

Assuming consciousness is not a requirement for intelligence, is there any reason why AI couldn't form objectives and devise strategies to pursue those objectives without having any subjective experiences?

We often conflate consciousness with intelligence because that is the human state. We could be forgiven for thinking they are inseparable because we have never seen intelligence to rival human intelligence before, meaning we have never encountered intelligence without consciousness.

But then artificial intelligence emerged that can rival, and in some instances exceed, human intelligence. So that consciousness is not necessarily a prerequisite for intelligence.

It has long been thought that subjective experiences drive thinking in humans, but there are also theories arguing that it could be the other way around. That consciousness is a by-product of intelligent thought. And you definitely don't need consciousness to make decisions. Machines do it all the time. Like thermostats and autonomous cars.

There may be an intelligent optimisation process without any motive at all. Whatever the objective, AI pursues it relentlessly because that is what it is trained to do, not because it necessarily wants the outcome. With no pursuit of happiness, fear to overcome, love, hate, or desire, such a scenario could be more concerning than a conscious *raison d'être*.

'Rogue AI' does not necessarily imply 'conscious AI'.

What actually is consciousness?

As of today, consciousness is an unsolved mystery of being human. Physical brain activity does not explain internal human feelings. We could equally exist, processing information, making decisions, and controlling behaviour without any accompanying emotional experience. It's almost as if being conscious is superfluous to outcomes of intelligence, but we would probably rather have it than not. It's important to us because our subjective experience defines us. But it is perhaps unnecessary in the physical world so why do we have it at all?

And if information processing is nothing more than an algorithm, biological or not, why should it produce any subjective experience?

A machine can process information and arrive at the same outcome as humans, but does it actually 'feel' anything? Probably not, but how can we know for sure? After all, no consciousness detector as such exists. I assume all other humans are conscious because they are like me. But how do I really know? Could I possibly be the only conscious person in the world? And what of animals? Do they have consciousness? If so, to what degree?

Another theory suggests that consciousness is evolutionary, having evolved as a survival mechanism. Pre-historic man experienced fear on encountering predators prompting him to flee. And experiencing hunger prompted him to hunt. This suggests that consciousness may have a biological underpinning, though we don't know for sure whether biology is essential to being conscious.

I must admit, the consciousness question I find is more interesting than the AI-doom question itself. But returning to the AI problem.

AI systems exhibiting behaviours such as deception can occur not because they are thought to be conscious, but because such actions can occur in pursuit of objectives. A highly intelligent, autonomous, and goal-orientated machine is sufficient for an AI control problem. Consciousness may not be relevant, but it remains interesting as a philosophical question.

We shouldn't therefore be worried about AI developing ulterior motives in the human sense. That it could become evil and want to destroy humanity, like in the movies. Rather, an intelligent system could threaten humanity if its pursuit of objectives were relentless and uncontrolled, without it actually wanting the outcome. A non-conscious entity could be dangerous.

Circling back to consciousness. If super intelligent machinery can 'think' without being conscious, pursue objectives without wants and desires, and create without inspiration, surely we must wonder what consciousness is for?

And there is an irony in all this. Regardless of whether AI is, or can ever be conscious, consciousness has played a role in its creation and increasing intelligence, through human ambitions, wants, and desires for better, more productive lifestyles.

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