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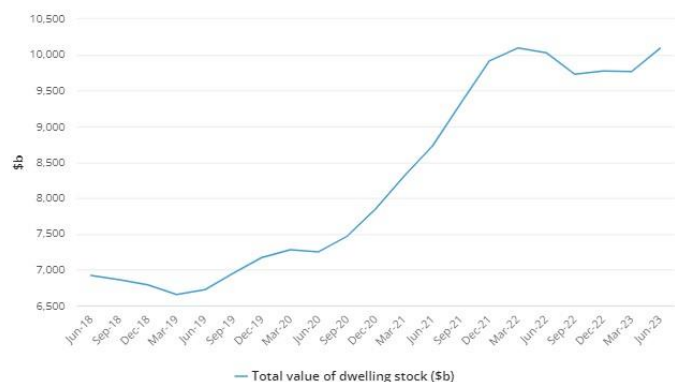
Editorial

Residential property prices have defied almost all predictions in 2023. According to **CoreLogic**, home prices bottomed in February 2023 and have recovered 6.6% across Australia with Sydney up 9.2%. Defying rapidly-rising interest rates, the trifecta of high immigration, increasing rents and shortage of supply have brought FOMO back to the market. A significant reduction in borrowing capacity is often covered by selling every other investment, accessing super under the FHSS or the Bank of Mum and Dad kicking in even more to avoid the dreaded queue of people inspecting rental properties on a Saturday morning.

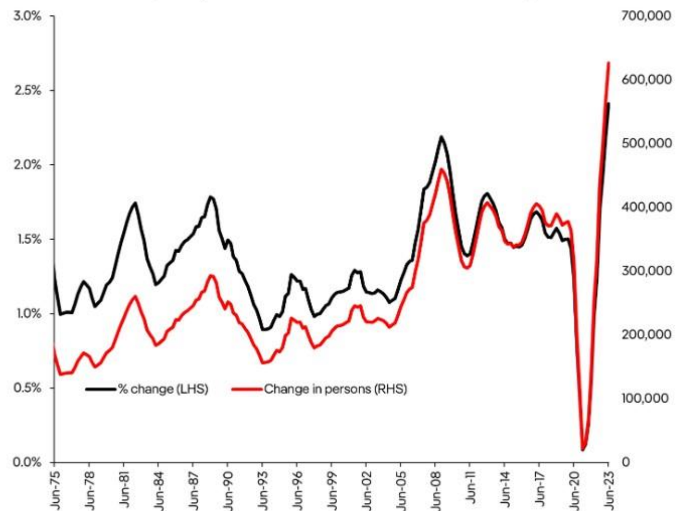
And so we are back above $10 trillion in total value, according to the ABS, up $325 billion in three months, with $9.8 trillion owned by households. Relatively few of the 11 million residential properties are owned by institutions. It's the place where most Australian wealth is held, with superannuation dwarfed at $3.5 trillion and the market value of all listed equities at only $2.5 trillion.



Also from the ABS, further evidence that many young people must be totally frustrated by the housing market, especially Sydney. A mean dwelling price near $1.2 million tells thousands of people they will never own a house.

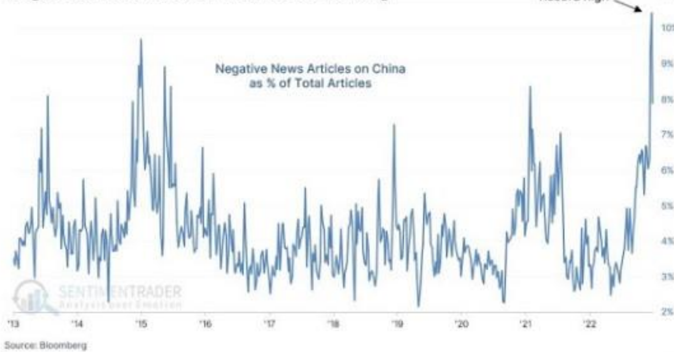
The main reason for the growth is the extraordinary recovery in immigration driving population growth, as shown (right).

Estimated annual change in population
(extrapolated from ABS National Accounts)



Source: Cameron Kusher (PropTrack)

It leaves Australia with a different economic dynamic than many countries, such as China, Japan and most of Europe. China has been the world's growth engine and factory for two decades, but now faces the opposite of Australia - falling house prices, an ageing demographic and high unemployment, especially of young people. Its growth has slowed and the market is pessimistic about its prospects, as the chart below shows with record negative news articles tracked by **Bloomberg**. Fund managers such as **Platinum's Andrew Clifford** argue that China offers compelling valuations and the Government is injecting major stimulus.



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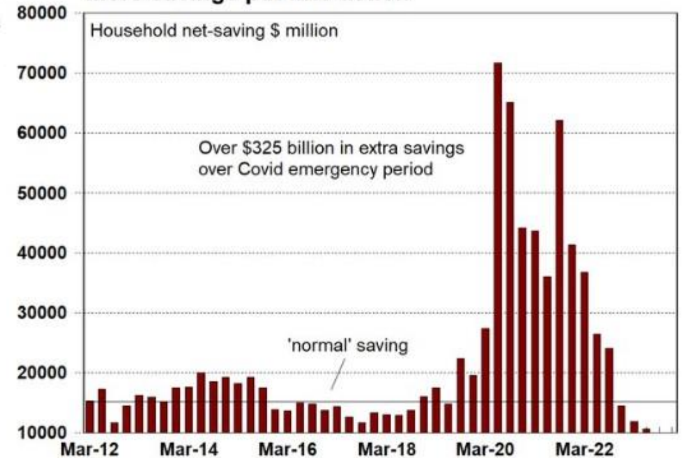
Jesse Felder @jessefelder

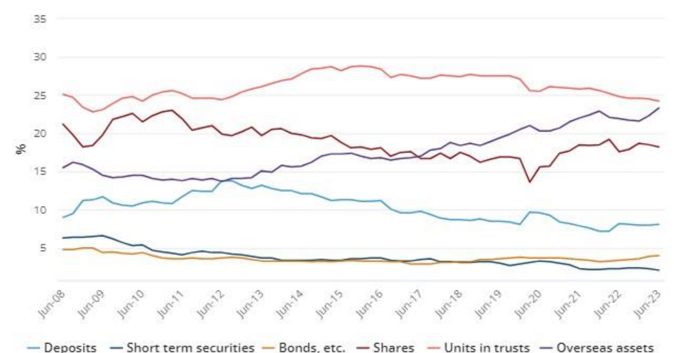
'Amazon trades for 143x trailing earnings and 42.7x forward earnings. Alibaba can be bought for 16x trailing and 12x forward earnings. And yet, revenue growth at the two companies has been the same in the past two years.' my.stonex.com/mystonex/marke... by @VincentDeluard

A fascinating chart from **CommSec** shows how much households saved during the pandemic and how this has protected them from higher interest rates and inflation, but that money is now gone. CommSec says Australians saved around $325 billion more than 'usual' over the emergency period.



This week, we look at how anyone can invest in a wide range of funds [for free, or paying very little](), a few basis points. Yes, investing can be free, even in managed portfolios. And for anyone wondering about constructing their own portfolio, here is the ABS data on [how institutions are allocating their assets.]() There's an ongoing switch to overseas assets and less to domestic shares and deposits, reducing the traditional home country bias.

Managed funds institutions' asset allocations - Proportion of consolidated funds under management - Selected assets



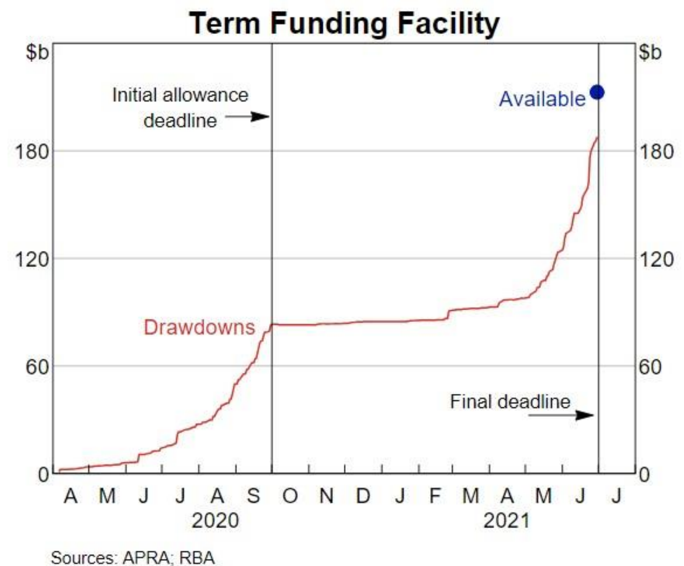
Tomorrow is the final day of **Philip Lowe** as Governor of the **Reserve Bank**. His time is best summarised in his own speech to the [Anika Foundation]() on 7 September. He admitted:

"the issue that has defined my term more than any other is the forward guidance about interest rates that was provided during the pandemic. That guidance was widely interpreted as a commitment,

rather than a conditional statement, that interest rates would not increase until 2024."

He also recognised that the combination of stimulus measures used by the Reserve Bank during the pandemic was excessive. The one that I considered most generous was the Term Funding Facility which provided $188 billion to the banks, representing 6% of bank credit. It added fuel to the housing market pushing it further from the reach of many first homeowners, including $51 billion to the **Commonwealth Bank**, the least-likely bank in Australia to have any funding problems. Said Lowe:

"With the benefit of hindsight, my view is that we did do too much."



Finally, our apologies if you made a comment on Friday or the weekend and it did not appear on our website. We did a system upgrade on Thursday night and it left a glitch in the comment process. Please feel free to comment again as we always enjoy a civilised debate.

Graham Hand

Also this week ...

Schroders' Martin Conlon surveys the market environment and is mostly bearish. He says interest rate hikes are hurting younger people and intergenerational tension is rising; the market seems frothy given rates have rapidly risen yet investors are still piling into some of the same tech stocks that they were when rates were near 0%; yet on the positive side, China's problems seem fixable.

Man Numeric's Michael Dowd is also a sceptic when it comes to the current love for tech stocks, especially those with exposure to artificial intelligence. For him, history shows that even in the throes of excitement over new technology and its potential, asset prices may creep ever higher in the short term, but often disappoint in the longer term in the face of elevated expectations.

Blake Henricks of **Firetrail** says that with all the market attention on tech stocks, it might be time for a comeback in traditional old-world assets. It can be uncomfortable to buy unpopular stocks after a setback, but Blake picks two Australian companies that may have better times ahead.

Industrial real estate is an old-world asset with new-world drivers, so it might have the best of both worlds, according to **Colin Mackay** of **Cromwell Property Group**. Though industrial has been the standout real estate performer of the past decade, Colin believes constrained supply in the space means the good times are likely to continue.

Harry Chemay bluntly suggests that our superannuation system has turned into a giant tax shelter where wealth is captured and passed on to descendants. And he thinks the recent Intergenerational Report fails to address the elephant in the retirement room: falling home ownership.

The proposed new tax on super balances over $3 million has many people contemplating whether to withdraw large amounts in the next few years before the tax takes effect. **Meg Heffron** explains why this may not be a good idea.

Noel Whittaker asks whether access to super and pensions should depend on life expectancy. Noel thinks a recent court case on early access to pensions highlights the need to create conditions for equal lifespans for all.

Lastly, in this week's White Paper, **MFS** sees a regime shift of lower returns and higher volatility ahead, and believes investment portfolios will need to adapt to generate adequate future returns.

Curated by James Gruber and Leisa Bell

How to invest in funds for free (almost)

Graham Hand

Where are the Customers' Yachts? is an all-time classic book about the investment and stockbroking industry in 1930s New York, written by Fred Schwed Jr and first published in 1940. It was a time of high brokerage fees, wide trading spreads and poor price discovery. The book's title came from a question by a visitor to Manhattan in the late 1800s, who admired the beautiful boats nearby which were all owned by bankers and brokers.

While many aspects of investing have not changed much over the decades, financial innovation and competition have reduced spreads and fees on many products and it is now possible to invest in professionally-managed funds for free, or very close to it. Investing has become increasingly democratised and accessible.

Of course, thousands of funds available in Australia still charge relatively high fees. When Treasury released its *Your Future, Your Super* proposals in 2020, the background paper estimated that Australians were paying $30 billion a year in superannuation fees alone, expected to rise to $46 billion by 2034. Plus according to Rice Warner's *Personal Investment Projections*, Australians hold non-super investments (other than the family home) worth about the same as their super balances. It's reasonable to expect, therefore, that within a decade, personal investment fees could top $100 billion a year. Investors have the choice not to add to the largesse.

Index funds are at the forefront of reducing investment costs, supported by cheap distribution via stock exchanges of Exchange-Traded Funds (ETFs). In the US, passive fund balances have exceeded active funds since 2019, with BlackRock and Vanguard the largest fund managers in the world, holding about $12 trillion each. Adoption in Australia has been significantly slower, where managed funds still dominate, but ETFs have grown strongly to over $150 billion.

While investment selection should not be based solely on cost, as the Treasury report says:

"Every dollar that an Australian pays in higher fees is a dollar that they will not benefit from in their retirement."

Some investment advice and portfolio management is worth paying for. If a fund manager consistently outperforms an index after fees, then the skill might be worth the cost. The challenge is in identifying the performing manager. The well-known Standard & Poor's SPIVA research suggests about 80% to 90% of active fund managers in Australian and international equities fail to match their benchmarks after fees over five, 10 and 15 years.

Charlie Munger, Warren Buffett's offsider, knows more about active management than most. He told the Daily Journal:

"How many managers are going to beat the indexes, all cost considered? Maybe 5% consistently beat the averages. Everyone else is living in a state of denial. [Active managers] are used to charging big fees for stuff that is not doing their clients any good … If a widow comes to you with $500,000 and you charge 1% a year, you could put them in the indexes but you need your 1%, so you charge someone a considerable fee for worthless advice."

Investing should aim for maximum returns for a given level of risk, consistent with long-term goals, but let's explore some ways investing in funds can be free, or almost free.

1. ETFs

There is a wide range of index funds, either ETFs or unlisted managed funds, with such tiny management fees that the cost is almost irrelevant, say, less than 0.1%. The stockmarket regularly moves more than this every few minutes. While brokerage is paid to buy ETFs, there are online brokers offering trades for $10 or less, and brokerage is only payable once if the investor does not sell. It is not an annual fee.

Here are 10 Australian ETFs with an annual fee of 0.08% (8bp) or less:

Name of ETF	ASX Code	Fee (% pa)
Vanguard US Total Market Shares Index	VTS	0.03
BetaShares Australia 200	A200	0.04
iShares S&P500	IVV	0.04
iShares Core S&P/ASX200	IOZ	0.05
Vanguard Australian Shares Index	VAS	0.07
iShares S&P Mid-Cap	IJH	0.07
iShares S&P Small-Cap	IJR	0.07
iShares Core Cash	BILL	0.07
BetaShares Global Shares	BGBL	0.08
Vanguard All-World ex-US Shares Index	VEU	0.08

These funds provide diversified access to small, mid and large cap equities both in Australia and around the world.

The lowest cost does not always make for the best investment. For example, a January 2023 episode of Morningstar's podcast, *Investing Compass*, called 'Build a Portfolio with 3 ETFs' used Morningstar ratings rather than cost to build a simple diversified fund. They chose Vanguard MSCI Index International Shares (ASX:VGS) for broad global equity exposure, VanEck Australian Equal Weight (ASX:MVW) for a less concentrated exposure to Australian equities which has outperformed the index, and iShares Core Composite Bond (ASX:IAF) gives bond exposure to reduce risk.

There are also plenty of ETFs which give diversified exposure across many asset classes in a single trade, such as the Vanguard range of multi-sector ETFs. Across a range of risk levels from conservative to high growth, the management fee is 0.27%. BetaShares offers a diversified growth ETF for 0.19%. However, while these funds are 'cheap', they are compromising my definition of 'free'.

2. Industry funds

Industry funds are confined to superannuation so they are not relevant for non-super investing. The Australian Taxation Office (ATO) has a comparison tool for YourSuper funds including performance and fees.

The cheapest super fund with a management fee of 0.04% pa is the HostPlus Balanced Index Fund. While this is effectively 'free' for larger amounts, there are fixed administration fees of $1.50 a week or $78 a year which may be material for small balances.

Many industry funds have balanced options with active management and full functionality including call centres and general advice. UniSuper's Balanced Fund is claimed to charge the lowest fees of all default, balanced, MySuper funds with an administrative fee of $96 or 2% of the balance (whichever is lesser), an investment fee of 0.4% and transaction costs of 0.08%. It should cost around 0.5% for amounts other than small balances. Again, cheap but not free.

3. Retail managed funds

There are significant variations depending on funds and balances, but a favourable factor is the general lack of fixed administrative fees in most retail funds. Although ETFs have a reputation for cheap index funds, passive investing has been offered by unlisted managed funds long before ETFs came on the scene.

For example, the non-super FirstChoice Wholesale platform from Colonial First State (CFS) offers its Index Series across a full range of sector specific assets (Australian bond, global bond, Australian share, global share, property) as well as Diversified, Moderate, Balanced and Growth versions to match an investor's risk appetite. The cost is a competitive 0.31% to 0.32% with full reporting and call centre access, with no additional administration fee and a minimum account balance of $1,000. For large balances, CFS offers a 'portfolio rebate' based on balance, at nil up to $100,000, 0.05% for the next $400,000, 0.1% for the next $500,000 and 0.2% for over $1 million. A portfolio of $2 million would receive a rebate of 0.135% taking total cost to 0.175% including active asset allocation.

In superannuation, small balances should focus on the annual fixed fee. For example, Virgin Money Super LifeStage Tracker charges a low annual fee of $58 regardless of the balance, with competitive fees. Asset allocation is performed by Mercer.

There are also actively-managed funds which charge a nil base management fee and rely on performance fees. A couple of examples are EGP Capital and Solaris Core Australian Equity Fund (Performance Fee Option).

4. Online digital investment funds

There are many roboadvice offers now in Australia, although the 'advice' part is usually little more than a few questions about age, risk appetite and financial resources. Portfolios are selected based on the responses but it does not qualify as financial advice. For example, many younger investors should be paying off credit card debt while older people would earn a guaranteed after-tax return by paying off the mortgage on their home. It is better described as digital investing.

One of the cheaper options is Spaceship in both super and non-super form. I was initially highly critical of this company but it seems to have come a long way over the six years since. In non-super investing, it offers the Spaceship Origin portfolio comprising a cap-weighted index portfolio with 15-25% allocated to the Top 100 Australian companies, 70-80% to the Top 100 global companies and 0-10% cash. The cost is $24 a year ($2 a month) plus 0.15% per annum. Spaceship's superannuation options do not fall into the 'free' category. For example, their index offering is $78 a year plus 0.577%.

The most successful online platform in Australia is Stockspot, with fees varying from 0.66% for smaller balances to 0.396% for $2 million and over.

5. Funds in Listed Investment Companies

Many of the largest, traditional Listed Investment Companies (LICs) are attractively-priced for active management, with the Total Cost Ratio estimated by Morningstar for the three cheapest being:

- Argo Investments (ASX:ARG) cost 0.15% pa
- Australian Foundation Investment (ASX:AFI) cost 0.14% pa
- Australian United (ASX:AUI) cost 0.10% pa

Arguably, another way to invest 'fee free' is to buy LICs or Trusts (LITs) at a discount to the value of their Net Tangible Assets (NTA). For example, if a LIC is trading at a 15% discount to its NTA but carries a management fee of 1%, then in one sense, 15 years of fees are covered by the discount. In addition, if the LIC earns say 6% on its NTA, that will equate to (6%/.85) 7.06% at a 15% discount. That pays the 1% needed to cover the management fee.

However, saying the fee is covered by the discount assumes the discount narrows by 1% each year or 15% over 15 years. If an investor buys at a 15% discount and sells at a 15% discount, then the fees are not covered by the discount.

Building a portfolio of funds

The advantage of investing in a large, diversified fund is that the administrative work of rebalancing and selecting the asset allocation is performed by market experts. Even where the exposure is all in cheap index funds, the asset allocation alone may be worth paying for, given the skills provided by the fund and its asset consultant. The bulk of returns over time come from asset allocation, not the selection of specific stocks or bonds.

However, ETFs allow construction of a cheap balanced portfolio by selecting inexpensive funds, such as this typical balance fund allocation (about 50% growth, 50% defensive). This is simply an example of what is possible.

Asset Class	Example ASX code	Balanced Allocation	Management Fee
Australian shares	A200	25%	0.04%
Global shares	VTS	25%	0.03%
Listed property	VAP	5%	0.23%
Australian bonds	IAF or VAF	20%	0.10%
Global bonds	TBIL or VBND	20%	0.22%-0.23%
Cash	BILL	5%	0.07%
TOTAL		**100%**	**0.10%**

This portfolio of ETFs carries annual management costs of only 0.1%.

Where such a portfolio is applied to superannuation, it may be necessary to enter a 'Member Direct' product with a super fund, checking whether such ETFs are available.

Alternatively, setting up an SMSF with an inexpensive administration platform may be worthwhile but an SMSF incurs the ATO annual supervisory levy ($259) and the annual ASIC fee for an SMSF special purpose trustee (around $60). Financial advice is an additional expense if required.

A comment on other costs

Other transaction costs should be checked to ensure execution is as cheap as possible, including:

Brokerage: discount brokerage for execution only for $10 or less.

Spreads: there may be a 5 to 10 point spread between entry and exit prices.

Other expenses: funds will usually charge some expenses of a few points against the fund.

Final remarks

This paper is not suggesting management fees should be the sole determinant in selecting investments. Rather, it shows that investing can be free, or almost free, if desired by an investor. Many people complain about the tens of billions of dollars paid to the asset management industry each year when there are plenty of ways to invest and avoid these fees.

Graham Hand is Editor-At-large for Firstlinks. This article is general information, not taxation or personal advice, and is based on an understanding of relevant products without attempting to identify every option available. Individuals should seek advice from a financial adviser or tax accountant before considering on any of the investments mentioned outlined in this article.

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Footnote

The following is a footnote on how Morningstar identifies good managers and performs its asset allocation, and it is for individuals and their advisers to determine whether fees for these skills are worth paying.

A note on Morningstar's Medalist Ratings and Portfolios
Morningstar publishes ratings for over 200 Australia ETFs, as well as model portfolios built around ETFs. There are nine ETFs rated Gold and 20 rated Silver. Morningstar analysts select which ETFs to rate based on investor and adviser demand, and gives the ratings based on three pillars: Parent, People and Process, with the latter making allowance for fees.

What are the Medalist Core portfolios?
They are multi-asset, multi manager portfolios that are founded on Morningstar's strategic asset allocation, or SAA, and therefore they are highly diverse. A 'whole of portfolio' look through approach is used for portfolio construction and risk management.

What is the Morningstar Manager Research Medalist Ratings™ process?
The Medalist ratings process are Morningstar's forward-looking assessment of the universe of funds and ETFs covered in Morningstar's extensive database. Morningstar is a global leader in researching and evaluating fund managers, and it's been a

core part of the Morningstar business for over 20 years. It's well-established and globally consistent, and starts with assessing the People, the Process and the Parent organisation of each fund, using both our analysts' insights and machine learning technology.

How do we use the Morningstar Manager Research Medalist Ratings™ process when constructing the Medalist Core portfolios?
The Medalist Core portfolios are made up of strategies that have been assigned a medal rating: gold, silver, or bronze. For active strategies, this means we believe it will outperform its benchmark. For passive strategies, it means outperforming the category average. The managers chosen are all well-regarded in the industry and most or all would be well-known to advisers. Morningstar risk and data tools are used to construct the portfolios to achieve balance and diversification, cognisant of market risks. Portfolios are designed with the intention that managers produce the majority of performance alpha.

What does this mean for advisers and their clients?
The portfolios are professionally managed and use institutional level portfolio construction and implementation tools while incorporating Morningstar's best ideas across manager research. It also means they incorporate a proprietary optimised mix of active and passive allocations. Morningstar only chooses active management when its analysis shows that there is a reasonable chance of achieving outperformance for the asset class, which is greater than the probability of underperformance.

Rising rates are transferring wealth to older people

Martin Conlon, Natalie Morcos

This is an edited transcript of a webinar hosted by Schroders. Part I features Natalie Morcos, Head of Product, Solutions, and Client Service, with Martin Conlon, Head of Australian Equities. We'll have Part II next week.

Natalie Morcos: Martin, I'd like to really just start off by setting the scene. We're at a multi-decade turning point in inflation. We've seen the sharpest rise in interest rates. And this reporting season has been touted as being one of the most interesting. What can you share with us and how are you responding to this current season?

Martin Conlon: Thanks Nat. Well, I'd start by saying that turning point issue you raise is potentially, in our eyes, one of the most interesting. And the reason I say that is that bond markets have changed pricing pretty aggressively over the last year or two. And you can now get 4% yields on treasury bonds in the U.S. and 10-year government bonds in Australia. Interestingly, that is … signifying a fairly different outlook on the future.

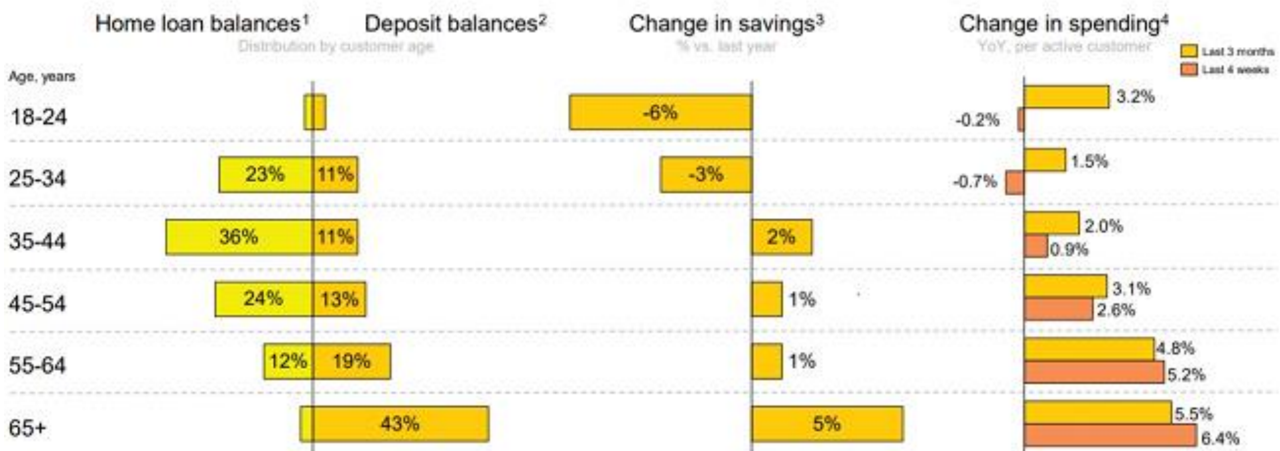
You contrast that with equity markets and the way we'd really characterize things is that it's a lot about more of the same. Everything that's worked for the last 10 years, people are still implementing those same strategies and same behaviors. That sets the scene, if you like, for a pretty sharp divergence in the views of those two markets. And a cynic would suggest it's unlikely both of them are going to be right.

… Since the start of the year, obviously things like artificial intelligence have infatuated people and provided another leg again to that tech dominance. That really, again, is re-emphasizing that more of the same type of argument where people are used to the success of these stocks, they keep on implementing those behaviors. I'd argue it's a little bit the same as real estate in Australia. People are so used to being on a good thing that they're really not giving up on those things lightly.

Morcos: We'll come back to that point a little later on because I've got some questions on that for you, Martin. But this concept of bifurcation and wealth inequality is a concept that you first raised during COVID. You touched on it in your most recent commentary. It seems to be a theme that you touch on quite often. Can you give us some insights into what you actually mean by that and what you're seeing in this reporting season in particular?

Conlon: Sure, Nat. I'll use this slide from CBA because I think it really encapsulated a lot of those underlying issues that the economies are facing.

It's not just the Australian economy, but the point you raised on bifurcation and what's happening with interest rates, the economy that we're facing today is arguably very different than times gone past. The reason I say that is, again, on this slide, that 10, 20 years of declining interest rates and booming asset prices have had a lot of impact on the economy in terms of wealth transfer. You can see on this slide that the home loan balances are owned by young people; the deposits are owned by old people.



So, what happens? When you put interest rates up, effectively what you're doing is transferring wealth from the young to the old. That's what interest rates do. People often forget that actually they don't create growth, they don't do anything, any of that stuff. What they do is transfer wealth within the economy. And with all the assets having been transferred to the old, to then put interest rates up and say to the youth of the economy that again, you've got to transfer more of your wealth to the elderly is really in our eyes increasing the tension. That increase in tension and income inequality and wealth inequality around the world is a massive issue, and we think it will be a big one for the next 10 years.

You're seeing it again on the right with the change in spending over recent months. What's happened? The younger cohorts have retraced their spending very significantly. At the older end, they're feeling better than ever. Actually, their spending is stable to increasing. So, that issue and the underlying impact of interest rates, I think is one that we've got to be very careful with. Also, it's why we really side with the RBA and say you've got to be careful how hard you push interest rates in this context because the economy you're facing is different, the impacts are pretty severe, and we're really only just starting to see the impacts of those interest rate rises now given fixed rate loans, et cetera.

Morcos: And beyond the housing sector, what else, what other patterns are you seeing in terms of consumer spending and the impact that these rising interest rates and inflation has had on consumer spending?

Conlon: Again, the obvious ones are nearly all results you saw those demographics coming through in the spending. So, depending on which cohorts you're facing, there were tougher times for some, and a lot of others were relatively unimpacted. So, interestingly, things like hardware stayed pretty buoyant. Again, they're really appealing to homeowners. Some of the older demographics, not so much to the younger ones. Travel, again, incredibly strong given that that tends to be disproportionately the older part of the community.

The other thing we'd point out and one of the things we found interesting in results season was Coles raised the fact that theft is going up a lot in supermarkets. So, you've had huge amounts of investment in front office or the technologies that we all see in terms of automated checkouts at the supermarkets. That's uncovering a whole other list of problems in terms of needing to combat theft. But again, the other thing that we took out of it was that a lot of those demographics most impacted by interest rates are really doing it pretty tough. You only resort to theft when you really have to and that says something about what interest rates are doing and perhaps some of the hidden and underlying effects that interest rates are having that really suggests that even though the overall economy we suggest is still really healthy, unemployment super low, most of the indicators really good, this is not a weak economy, certain cohorts are really doing it tough.

Morcos: Now, Martin, you talked about valuations in some of the areas, particularly in the tech stock has been somewhat crazy. We often consider ourselves thoughtfully contrarian. Can you share with us, I guess, your current views and whether you think things will change in that field?

Conlon: I'd probably have to summarize it as saying very little has changed so far. As I said at the outset, one thing that's obvious is that tech is going on with it. The dominance of technology companies around the world, they're still putting price up, the enthusiasm around cloud, et cetera is still providing enormous revenue strength for most of those companies. And because investors are so used to momentum paying off, they are very reluctant to leave behind those behaviors.

So, we're still seeing a situation where if you've got a good story, people can get excited about the growth runway over long periods of time. They are very reluctant to care much about valuation at all. They will pay extremely high prices. You saw that with Altium and so on in results here. Conversely, where there's any semblance of bad news, and that was the case with WiseTech Global and Iress, the price has suffered a little bit from downgrading those expectations. So, severe and arguably overreaction to a lot of short-term news, as is often the case in stock markets, but still a lot of enthusiasm with those infectious long-term good news stories.

Morcos: With China's economic slowdown, it's easy to be bearish on China, but does that also mean we're bearish on resources?

Conlon: China, I honestly find a fascinating economic story at the moment, because you're totally right to say it's not difficult at all to find bad news in China. I've got a few charts up here which really highlight how perilous the situation is in some areas.

You can see there that land sales volumes, the key property indicators in China have in general been decimated. Consumer confidence given obviously the severity of COVID lockdowns and the lack of largess that the Chinese citizens saw from their government relative to what we saw in the West, and very high and arguably destabilizing levels of youth unemployment. It's easy to look at that Chinese picture and say this looks awful.

Underneath that though, we think that the long-term picture is probably a little bit more nuanced in that their starting point is they've got plenty of housing. So, yes, property prices are going down. What they don't have, unlike Australia, is a housing shortage. They can supply property for most of their citizens. They've also spent enormous amounts on developing infrastructure over recent decades. So, the quality of their underlying infrastructure, it's modern, it's good.

So, the starting point is that they're facing a challenge stimulating the consumer. It's really in stark contrast to Western economies where we are super-reliant on services and consumption to fuel our economy. China is very much in a situation where their economy probably has the basis of good housing for all good infrastructure. They are really struggling, particularly in the face of an ageing population, to get those consumers to spend and to take the economy to the next level in terms of services.

But if I stand back from it, it's not really that clear to me that if you were to pick one as a starting point, that starting in the west with very services intensive economies, lots of debt, and very little in the way of goods

manufacture, and in Australia, housing shortages, high immigration, a lot of tensions developing, that that's necessarily a much better starting point than where China is, where they're struggling to stimulate that consumer.

That's not exactly the picture you get when you look at the data and it's easy to be bearish on China. But we would suggest that actually the reason de-globalization is happening is that most Western economies are way too services sensitive and they're also too dependent on debt. In China, you've got very much the reverse situation where they're struggling with an ageing and declining population and perversely, they're losing most of their high-net-worth citizens to other countries. I always find it somewhat ironic that in Australia, we're sitting there trying to sell the benefits of becoming a larger country with lots of population growth. You go to most countries with a lot of people, what do they want to do? Leave. It is always ironic to me that companies and government are always preaching high immigration and the reason they do it is because it's easy growth for them. What we really should be worried about is GDP per capita, standards of living, productivity gain, some of those things that were raised in the Intergenerational Report recently and really are the secret to our living standards, not just growing the size of an economy.

This is an edited transcript of a webinar hosted by Schroders, a sponsor of Firstlinks. Part I features Natalie Morcos, Head of Product, Solutions, and Client Service, with Martin Conlon, Head of Australian Equities.

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Falling home ownership: the elephant in the super retirement room

Harry Chemay

The Intergenerational Report (IGR) paints a worrying picture for many of the millions of Australians who retire in coming decades, and it's not due to the affordability of or access to the age pension. It's the lack of ownership of a home.

In making his case for a universal superannuation system in 1991, Paul Keating noted (to a lecture theatre of university students) that:

"*When my generation begins to retire after the year 2010, you will be the taxpayers who will have to provide for us. We have lived well. And there are also a lot of us. We will want to retire in a style to which we have become accustomed. If you have to carry us, you will know it.*"

At the time, there were about two million Australians of age pension age, with five people of working age (15-64) for every Australian aged 65 and above.

Spin forward to Treasury's latest IGR and there are now some 4.5 million individuals of age pension age, a number that is expected to double by 2062-63. And currently around 3.8 people of working age to every person aged 65 or over, a ratio that is forecast to fall to 2.6 over the next 40 years.

I've been a part, and seen firsthand the growth, of Australia's superannuation system for some 26 of the 31 years since the introduction of compulsory superannuation in 1992. In that time the system has grown from less than $150 billion to be the world's fourth largest pool of retirement assets, a leviathan of some $3.5 trillion at present.

I've also been a keen follower of all six of the IGRs produced since 2002, specifically as they relate to retirement incomes policy. This most recent IGR is the first to hint at a growing retirement issue that has been apparent for some years now, but has never been openly discussed. It's time it should.

The age pension isn't under pressure

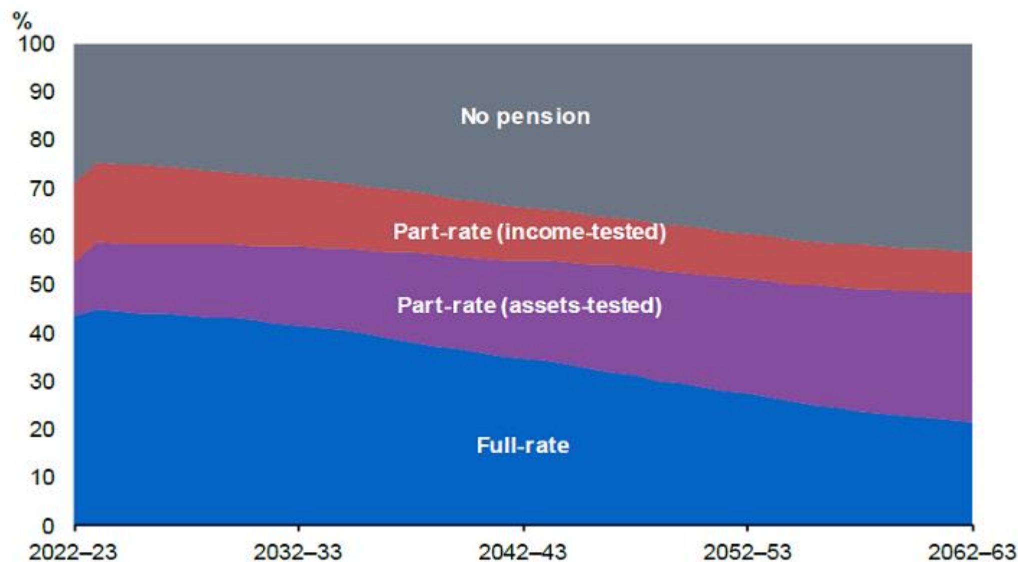
Keating's contemporaries are well into their seventies, with the youngest of the Baby Boomers now approaching retirement age. Yet, the latest IGR suggests no medium-term budgetary pressure on, or to the continuance of, the age pension.

Instead, the total projected annual cost of Australia's retirement income system is expected to remain relatively steady over the next 40 years, at around 4-4.5% of GDP. Further, spending on the combined age and service pensions is actually forecast to fall over the next 40 years, from 2.3% to 2.0% of GDP.

In short, despite Keating's warnings, or perhaps because of his creation of universal superannuation, the age pension is not under any foreseeable budgetary pressure. Far from it, as 31 years on from his implementation of a universal superannuation scheme, it is the age pension that still does the heaviest lifting in Australia's retirement income system.

Around 64% of Australians of qualifying age will receive some age pension during this financial year. When Disability Support Pension, Carers Payment and the Service Pension are included, pension and related income support payments are made to around 70% of qualifying age Australians at present, as the below chart from the 2023 IGR illustrates.

Chart 1: Persons of Age Pension age or over, by pension category.



Note: The increase in 2023–24 is due to the Age Pension eligibility age increasing from 66.5 to 67 years old, which affects the measure of 'person of Age Pension age'.

Source: Treasury.

Thus, while universal compulsory superannuation has been a feature of the Australian economy for over three decades now, some two in every three retirees of pension age still rely on the age pension as a key source of their retirement income.

In addition, more recipients receive the full rate of age pension than a part pension, although this is forecast to invert as the superannuation system matures and more Australians retire with super balances capable of creating a viable retirement income stream.

Falling home ownership is the elephant in the retirement room

What is a concern, however, has been the fall in home ownership over time, as two-plus decades of strongly rising property prices relative to real income growth has impacted the ability of average Australians to acquire a main residence and, increasingly, to have it paid off before retirement.

At the heart of Australia's retirement income system (albeit more whispered in policy circles than shouted) is the presumption of home ownership, unencumbered by debt. The rate of the age pension reflects this assumption, as do many of the 'retirement budgets' that purport to inform retirees of retirement income adequacy. As does the main retirement income projection tool currently provided by ASIC on its Moneysmart website.

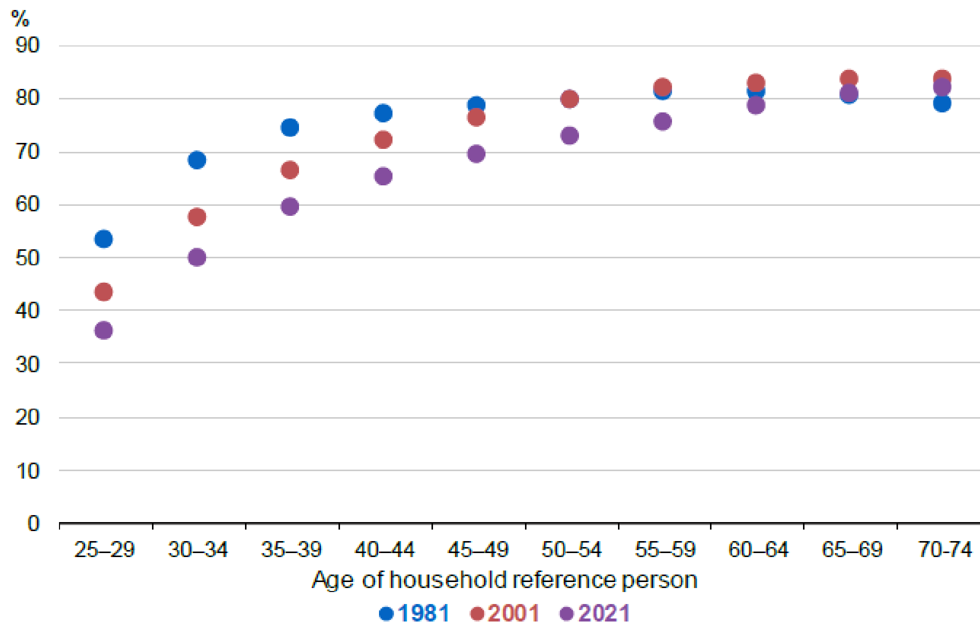
The latest IGR is the first to make explicit the homeownership-retirement connection, showing clearly that those in the key first-home buying years have been most impacted.

"Yet, home ownership can no longer be taken as a fait accompli, as younger (and lower income) Australians struggle to break into the property market at the same rate as previous generations."

Ownership rate amongst 30-34-year-olds has fallen from 68% in 1981 to under 50% at the last Census. For 35-39-year-olds, the fall has been from 74% to under 60%. In fact, right across the working age spectrum, from 25 to 64, rates of property ownership have declined over the past four decades.

The only groups making headway into property ownership are those 65 and over, with the 65-69 cohort steady at 81% ownership, while the 70-74 cohort actually improved from 79% ownership in 1981 to 82%, as this IGR chart below reveals.

Chart 2: Home ownership rate over past 40 years by age.



Note: Analysis was done at the household level. Analysis excludes Census responses where the answer was not stated. Data points show the home ownership rates in 1981, 2001 and 2021, with the gap indicating the percentage point difference.

Source: Treasury, AIHW analysis of customised ABS Census data (1981–2021).

This speaks to the growing unease that the social contract underpinning intergenerational equity appears to be fraying in today's Australia.

Because as Treasury's own Retirement Income Review of 2020 correctly noted:

"outright home ownership supports retirement income by reducing ongoing expenses and acts as a store of wealth that can be accessed at retirement."

The retirement maths for renters and the heavily indebted

If you can't break into homeownership at a reasonable age, giving yourself a fighting chance of being mortgage-free before retirement, it creates pressure at the other end of the journey in achieving both housing security and a dignified standard of living in retirement.

And if you're one of the 30% of households who rent, and continue to face the private rental market into retirement, that's a challenge on a different scale altogether.

A simple example illustrates the point.

At present, the full age pension for a single person is approximately $27,600 per year. For a couple, the equivalent amount is approximately $42,000, to which the soon-to-be-increased Commonwealth Rent Assistance (CRA) may add a further circa $4,500 per year at best.

According to CoreLogic data, the current median rent for all dwellings across the country is $577 per week, and $603 in capital cities.

Taking the nation-wide average, that's approximately $30,000 in annual rent, which would obviously consume more than an entire single full age pension, and be met (just) only with the help of the additional CRA benefit.

In the case of a retired couple, the current median private rent would consume some 65% of their combined full age pension and CRA.

Those who have managed to break into homeownership aren't exactly out of the woods either, with research done in 2019 showing that the proportion of homeowners aged 55-64 with outstanding mortgages had increased from 14% in 1990 to around 50% by 2015.

And of the main uses of super lump sums during 2016-17, mortgage and other debt retirement accounted for over 40% of such withdrawals.

Little wonder then the latest IGR makes the point that,

"these trends present a fiscal risk to age pension spending in the future and may impact patterns of how superannuation is drawn down."

Housing security is retirement security

Deciphering this Treasury-speak, it basically means: hitting retirement either as a renter or as a heavily-indebted mortgagor will impact the retirement security of many Australians, possibly putting pressure on both the age pension and superannuation system.

Not quite the outcome Paul Keating had in mind, but here we now are.

Whichever way governments of either persuasion slice or dice it, housing security and retirement security are two sides of the same coin.

The latest IGR makes it abundantly clear, much to our collective dismay, that we have now entered an era where decades of neglect of the former will haunt the latter without meaningful, sustained and impactful policy action.

Harry Chemay has more than two decades of experience across both wealth management and institutional asset consulting and is a regular contributor to investment websites in Australia and overseas, writing on investing and financial planning. He was the founder of the online investment platform, Clover.

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Meg on SMSFs: Timing and the new super tax

Meg Heffron

In a monthly column to assist trustees, specialist Meg Heffron explores major issues on managing your SMSF.

Many people spooked by the proposed new tax on super balances over $3 million are contemplating withdrawing large amounts in the next few years before the tax takes effect (2025/26).

My modelling suggests this is actually **not a great idea** for most people. But the fact remains that some will do it if they are able to (ie they're over 65 or they're still between 60 and 65 but have freed up their super by retiring).

Sometimes their SMSFs will sell assets and pay out cash. Other times it will just transfer the actual assets to the members. Either way, capital gains tax comes into play and the tax paid by the fund on these capital gains can be profoundly impacted by how and when the withdrawal happens.

An example

Consider Tarik who is the only member of an SMSF. Throughout 2024/25 his super fund balance is around $7 million ($2 million in pension phase, $5 million in accumulation phase). In June 2025, enough assets are sold to pay out a $4 million benefit to Tarik. In the process, the Fund realises a very large capital gain – to keep the numbers simple, imagine that capital gain is $1 million.

Because Tarik's SMSF is paying a pension, some of its investment income during 2024/25, including this capital gain, is exempt from tax. His accountant will get a certificate from an actuary to specify the percentage of all the fund's income in 2024/25 that is exempt from tax. (This percentage is often called the actuarial percentage).

In the normal course of events the actuarial percentage for Tarik's fund would be around 29% for 2024/25. This is worked out using averages – on average, what proportion of the fund relates to his pension account? In this case, it's $2 million out of a total balance of $7 million. That's around 29%. That means only 71% of the capital gain gets taxed.

So when the fund's accountant works out how much tax should be paid on the $1 million capital gain, the sums look like this:

$1 million capital gain x 2/3 (super funds only pay tax on 2/3rds of the capital gain as long as they've held the asset for more than 12 months) x 71% x 15% (the tax rate for a super fund) = $71,000

(As an aside, this is actually one of the reasons it's often a bad idea to respond to the new tax by taking money out of super. It forces the Fund to realise, and pay tax on, capital gains 'now' rather than in the future. It's often far better to just leave the assets in super and cop the new tax. But I digress.)

An alternative method

Let's assume Tarik is committed to taking this money out of super. Would there be a better way of doing it?

Actually there is.

Tarik could wait until July 2025, then sell / transfer the asset(s) very early in the new financial year (2025/26). That would mean the capital gain is taxed in 2025/26 rather than 2024/25.

The reason this is a good thing is that as long as the $4 million Tarik wants to take out of super is withdrawn very early in the year (say July 2025), the actuarial percentage for Tarik's fund will be much higher in the new financial year.

Again, it's because actuarial certificates work on averages. The actuary for Tarik's fund will see that for most of the year, his fund only had $3 million (of which $2 million, or around 67%, was a pension account). That means 67% of all the investment income during 2025/26 will be exempt from tax.

It doesn't matter that the fund earned a lot of its income right at the start of the year when the proportion of the fund that related to Tarik's pension was much lower. When it comes to the fund's tax return, all that matters is the average percentage over the whole year. This will be close to 67% (meaning only 33% of the capital gain gets taxed).

Tarik's SMSF would therefore pay much less tax on the capital gain:

$1 million x 2/3 x 33% x 15% = $33,000
(a $38,000 saving)

The key is that the money needs to be taken out of the fund quickly once the new year starts – the longer Tarik's $4 million stays in the fund, the longer the fund will have a very high "accumulation" balance. That will drag down the actuarial percentage and increase the tax bill.

In fact, this isn't even an 'all or nothing' thing. Let's imagine Tarik's fund has some cash available already. While the SMSF needs to sell some assets to pay out the full $4 million, some of it could be paid out earlier. There's nothing to stop Tarik withdrawing "as much as possible" in late 2024/25 and only delaying the final payment (which requires asset sales) until the new year.

But won't waiting until July 2025 expose Tarik to the new tax he's so desperate to avoid?

Not if it's introduced as currently announced by Treasury. The formula used to work out how much tax Tarik pays depends on what proportion of his balance is over $3 million at 30 June **2026** (not 30 June **2025**). If his balance is only $3 million or less at that critical date, there's no tax to pay. Even if it's over $3 million but not by much, the amount of tax would be small.

Certainly it's well worth doing these sums before taking money out of the fund.

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

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Every era has its hot stocks. Will AI defy gravity?

Michael Dowd

In the world of finance, few phrases are potentially as wealth destructive as 'this time it's different'. Yet, during a period when the mere mention of artificial intelligence (AI) has sent valuations soaring, many are wondering if this time it really is different.

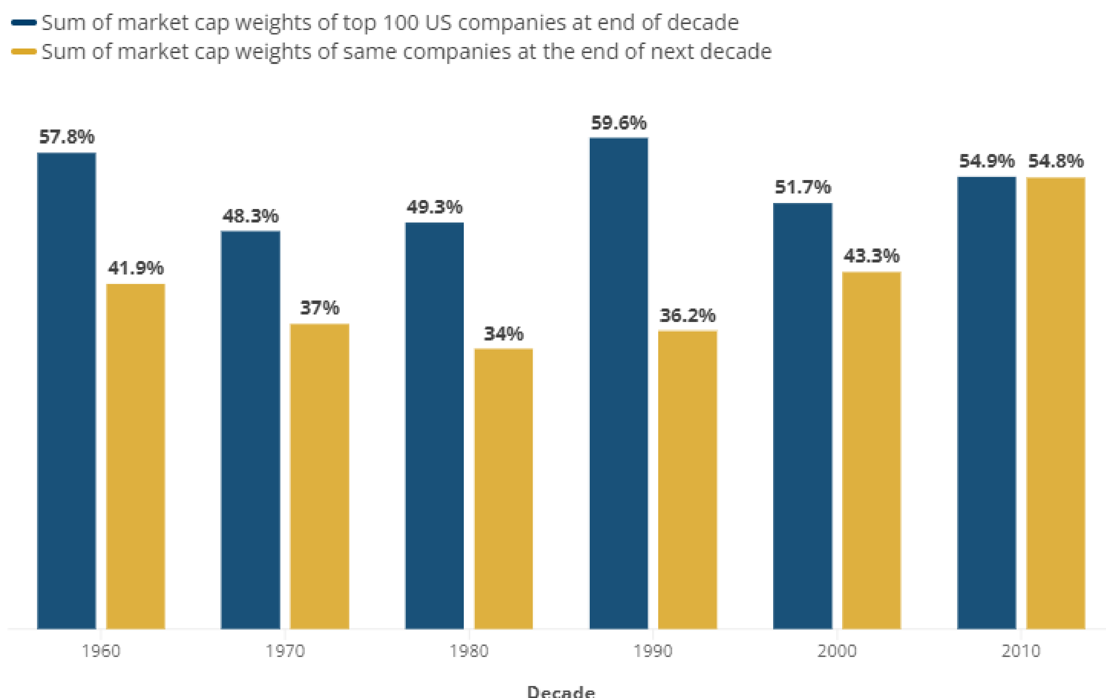
AI is undoubtedly a game-changer, impacting virtually every industry. History is filled with such transformative moments – and every era has its hot stocks. Before AI, it was the Internet. Prior to that, the world was bracing for Japan's economic dominance – until it wasn't. Conglomerates and oil companies, the "Nifty Fifty" of the 1970s have all had their moment in the sun.

So, is the euphoria around AI justified? Or should investors be bracing for an inevitable downfall? There are reasons to believe that this time might indeed be different. In the new AI economy, scale matters. Companies such as Nvidia, which is providing the proverbial picks and shovels for this new gold rush and which recently announced its sales would jump 170% this quarter, underscore this trend.

What history has to say

Yet, questions remain: is there room for the next college roommates with a disruptive big idea? Is the next Microsoft waiting in the wings? To gain perspective on these questions, we dived deep into the history of the US stock market, looking at the top 100 stocks (by market cap weight) at the end of every decade from the 1960s through to the 2010s and examining where the leaders of each decade were 10 years on (see Figure 1). While the end of a decade may seem like an arbitrary cutoff point, we chose to separate time accordingly.

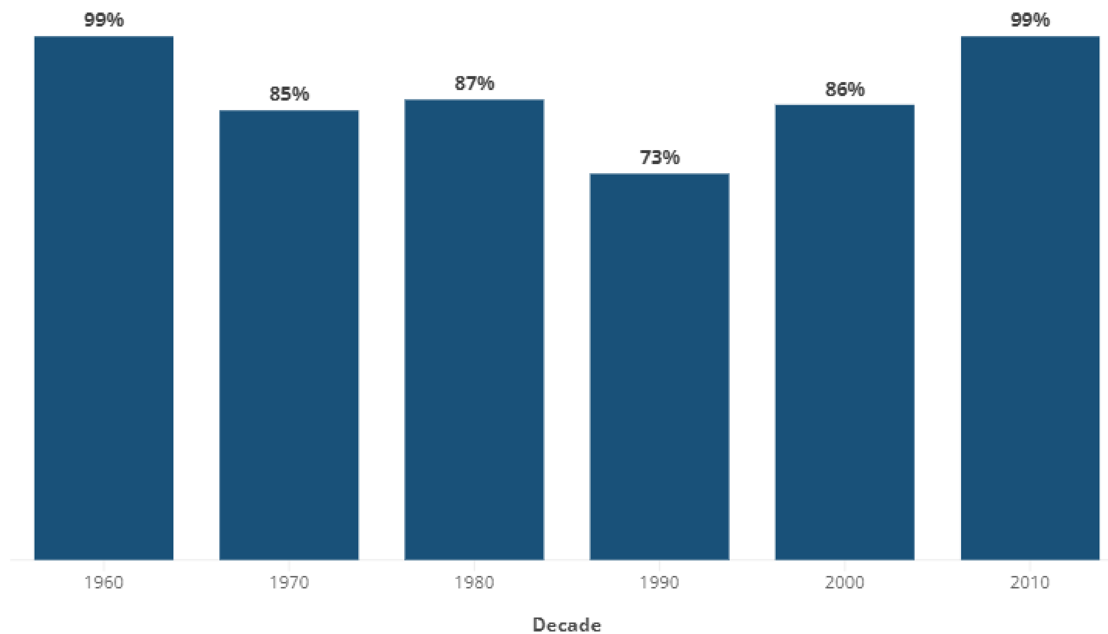
Figure 1. Leaders from Each Era Had a Smaller Market Weight a Decade Later



Source: Man Numeric. Data covers period from 30 September 1962 to 31 December 2022. For 2010, 'end of next decade' covers period from 1 January 2010 through to 31 December 2022.

What we found most striking is just how strong gravity has typically been. Reaching the top 100 in any decade has been no guarantee of success in the next. In each of the five full decades we studied, the weight of the top 100 stocks at the end of one decade was materially lower in the next. The decade following the dot-com craze of the 1990s (the 2000s) witnessed the lowest survival rate in our study with only 73% of stocks remaining a decade later (see Figure 2).

Figure 2. Survival Rate of Leaders a Decade Later



Source: Man Numeric. Data covers period from 30 September 1962 to 31 December 2022. For 2010, 'a decade later' covers period from 1 January 2010 through to 31 December 2022.

Over a full market cycle, new leaders typically emerge, with some exceptions, notably being in the 2010s, as recent market leaders have become somewhat entrenched. With that said, while it's true that Microsoft did in fact largely become the "General Motors of the Internet" and is still going strong, it has largely proved to be the exception, rather than the rule, at the individual stock level.

Current breed has proven resilient

While acknowledging that the current decade is still young, the leaders from the end of the last decade (2019) have also shown remarkable resilience thus far with the sum of the top 100 weights remaining steady at about 54%.

Returning to our initial question then: is this time different? Perhaps. But history tells us that even in the throes of excitement over new technology and its potential, asset prices may creep ever higher in the short term, but often disappoint in the longer term in the face of elevated expectations. The rise of AI is a thrilling new chapter in the ongoing saga of market disruption, but as investors navigate this new terrain, they would do well to remember the tales of past market heroes and their eventual fates.

Michael Dowd is Head of Investment Risk, Man Numeric. Man Group is a specialist investment manager partner of GSFM Funds Management, a sponsor of Firstlinks. GSFM represents Man AHL and Man GLG in Australia. The information included in this article is provided for informational purposes only. Any opinions expressed in this material reflect our judgment at this date, are subject to change and should not be relied upon as the basis of your investment decisions.

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In this new world, it's time for these old world assets

Blake Henricks

Investing in unpopular stocks is a great way to make money for investors but a disciplined process is required to find uncomfortable opportunities. This is especially true in smaller companies, which have underperformed their large cap peers in 2022 and into 2023 against a backdrop of rising interest rates and a bleak economic outlook. We've seen this movie before. Small caps are more exposed to the economy, have less diversified

businesses, and are less liquid than large caps. When the outlook starts to deteriorate, investors rush out of small caps and into large, liquid defensive stocks.

However, this underperformance has historically created an attractive entry point, as smaller companies deliver their strongest absolute and relative performance over larger companies when the economic outlook starts to improve. Small caps are now trading on a material discount to their historical relative valuations versus large caps.

The stockmarket is going through a phase when global investors are attracted to the 'new world' of large tech, growth companies. To find unpopular opportunities, a different framework for thinking is required. We hear a lot about new world assets, but in reality, it means higher expectations and greater potential to disappoint.

Uncomfortable opportunities in real assets

In fact, 'old world' assets are becoming more attractive because the barriers to building new things are getting higher. Anyone who has attempted an investment development such as residential or commercial property or a major project will know it is taking longer and it is much more expensive. There are more political constraints and fewer trades people. Interest rates are higher and competition among brands for a customer base is intense, and there's less funding available for new businesses. Money was free a few years ago but now there's a cost.

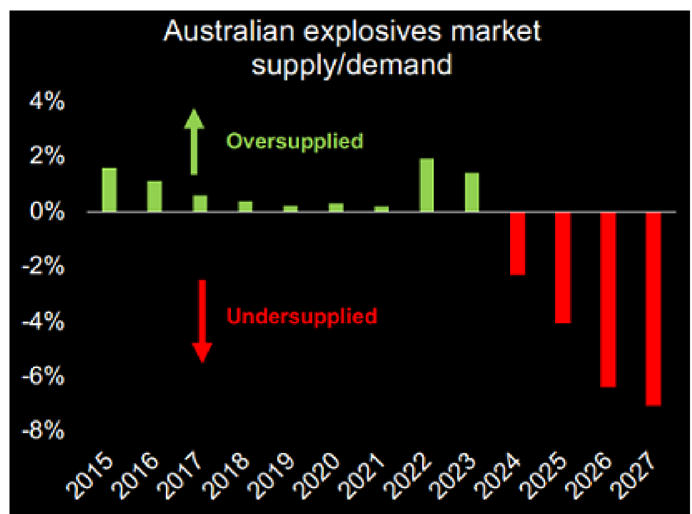
Newcrest Mining and Origin Energy are examples of good assets that have received attractive takeover bids in the past few months, Newcrest at a 30% premium and Origin at a 53% premium. Investors often focus on the 'buy or build' decision, and our view is that as the barriers go up to building new things, many existing assets become more valuable to buy rather than build.

Two old world companies the market is underestimating

Incitec Pivot (ASX:IPL) is not a household name but it's been unpopular in recent years, with the share price down from $4 to $3 in the last year. There are reasons for this, such as falling fertiliser prices, poor plant reliability and then the CEO stepped down. This is a company that turns gas into fertiliser or explosives, and when their plants don't work efficiently, they don't make money. So it is a company that is out of favour and herein lies the opportunity. Its assets have value.

Its US fertiliser business is worth about $1.8 billion and Australian fertiliser business is about $1.4 billion, but the explosives business is what really matters. It's valued at about $5.2 billion. The market probably understands that but underappreciates that this is radically-simplified business. In fact, they have sold the US business and there will be $1.8 billion cash on the balance sheet. They are looking at demerging or selling the Australian fertiliser business. We will be left with a pure play explosives business.

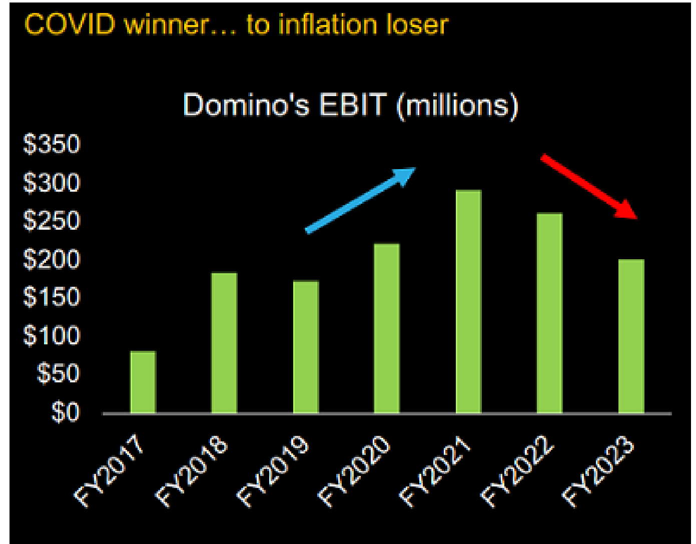
Consider the opportunity. One of the things miners must do is move material, and they need a lot of ammonium nitrate or explosives. In 2016, a huge ammonium nitrate plant was built in Western Australia. The green bars in the chart below show the market was over supplied with explosives for close to a decade. This is the type of original research we do.



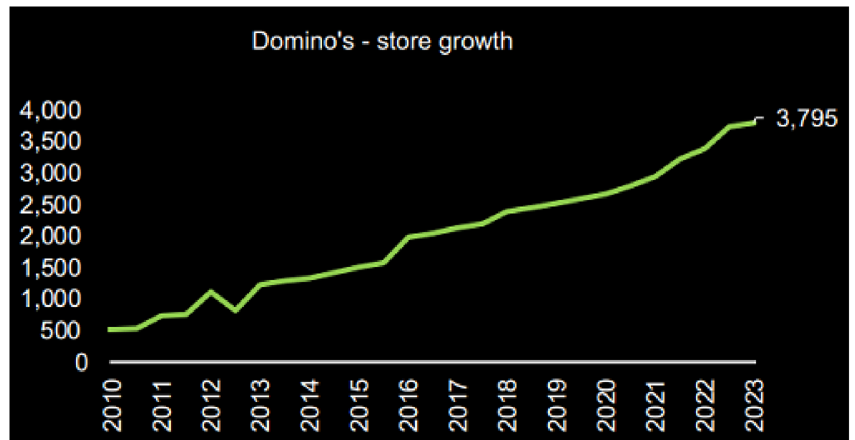
How many explosives plants have been built in Australia since 2016? Zero. Miners such as BHP have been on a capex holiday and they are now increasing production, which means they are increasing movement of material. We see a large shortfall in the

amount of explosives available in the Australian market. It can't be covered by imports because explosives do not travel well, and the largest exporter of explosives was Russia with nearly half of global supply. We think this is a great time to be buying into the explosive business after 10 years of underperformance.

The second stock with some old-world characteristics is **Domino's Pizza** (ASX:DMP). It was a major Covid winner in the lockdowns, but then it became a huge inflation loser. Inflation ravaged Domino's, it was among the most-impacted companies in the ASX200 from inflation. Food costs went up. Labour costs went up. Then they tried to push prices up but in a very clunky way. They added a Domino's Service Fee, the DSF they called it. It was a variable charge, like the surcharge on Uber during busy times. They had never had one before and customers started leaving. So Domino's was massively hit by inflation and issued seven profit downgrades in two years. It was a terrible time.



It's out of favour but what is the opportunity? Domino's makes money when they sell more pizza, and they sell more pizza by rolling out stores. And look at the following chart. They've gone from 500 stores in 2010 to 3,800 today. Even in the toughest time last year, they increased their stores by 6%. They have a very simple model with a delivery focus. It's small format so it's cheap to roll out new stores, in Australia today for about $500,000. They typically pay back in about four years, so for franchisees, this is a great investment.



We believe Domino's will revert to profit growth. They've committed to no more price increases based on what they can see, which will be more stable for customers. With store growth of about 7% per annum, and each store does a little better by about 3% per year. So it's a business that can grow revenue at 10% a year and its earnings even higher. The inflation headwinds have created an opportunity and now they need to make the case for investing in the company.

That's what we call an uncomfortable opportunity.

Finding comfort in the discomfort

The key takeaway is that many old world assets may be more attractive when the market is focusing more on the new world. Incitec Pivot, Domino's, Newcrest and Origin are not large cap tech companies, and investors are overlooking them.

As Insitec Pivot becomes a simplified, pure play explosives business, and Domino's recovers from its inflation shocks, we believe both companies will move from discomfort to comfort.

Blake Henricks is Deputy Managing Director and Portfolio manager at Firetrail Investments. Firetrail is affiliated with Pinnacle Investment Management, a sponsor of Firstlinks. This article is general information and does not consider the circumstances of any investor.

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Real estate's star performer to continue golden run

Colin Mackay

Industrial has been Australian real estate's star performer for a decade, notching up an annualised 10-year return of 14.2%[1]. While the rate of new supply has increased, the availability of space has been unable to match pace with surging demand. Australia has become the lowest vacancy industrial market in the world[2], contributing to record rental growth of almost 25% in the year to March 2023[3]. The sector's strong momentum continues, and the outlook is bright, as several long-term tailwinds drive demand.

E-commerce

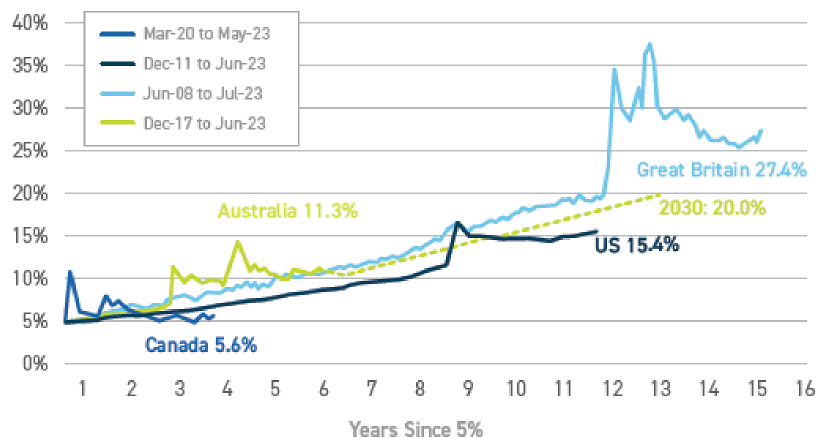
The shift in retail activity from physical stores to digital channels drives demand for industrial space in several ways:

- warehouse space is needed to store inventory which would have otherwise sat in a store;
- e-commerce tends to offer a wider range of products, rather than the curated selection that a specific retail store might be limited to, necessitating more storage space; and
- goods purchased online have higher rates of return, and space is needed to handle the reverse logistics.

Increased storage and space needs mean pure-play e-commerce requires three times the distribution space of traditional retail[4]. Customer preferences are primarily driving the shift to online, particularly as demographic change sees 'digital natives' become the dominant consumer segment. As scale and investment lead to greater efficiencies and profitability, the shift may gain another momentum boost.

E-commerce in Australia is following a similar trajectory to Great Britain – it is on track to hit a market share of 20% of all retail sales by 2030 despite growth slowing from pandemic peaks. With 70,000sqm of logistics space needed for every incremental $1 billion of online sales[5], e-commerce alone could generate industrial space demand of almost 600,000sqm p.a. over the next seven years[6].

Figure 1: Online share of retail sales - based to 5% share



Source: ABS; ONS; StatCan; US Census Bureau; Cromwell. Different country inclusions/exclusions for Food/Auto & Gas.

Supply chain resilience

One of the most immediate and lasting impacts of the pandemic has been supply chain disruption, with erratic swings in demand exacerbated by congested ports and border restrictions. The pendulum is now swinging from the prevailing 'Just-In-Time' supply chain philosophy, where goods are shipped on demand and arrive just before they are needed, back towards a 'Just-In-Case' approach. Under this approach, higher volumes of inventory and production are stored and undertaken locally, where it can be better guaranteed.

Supply chain experts estimate the majority of Australian occupiers are currently holding approximately 30% more inventory compared to pre-pandemic levels[7]. While this degree of buffer will likely decrease as supply chain disruptions ease, a full return to previous inventory levels is unlikely, meaning more warehouse space will be needed on an ongoing basis for storage.

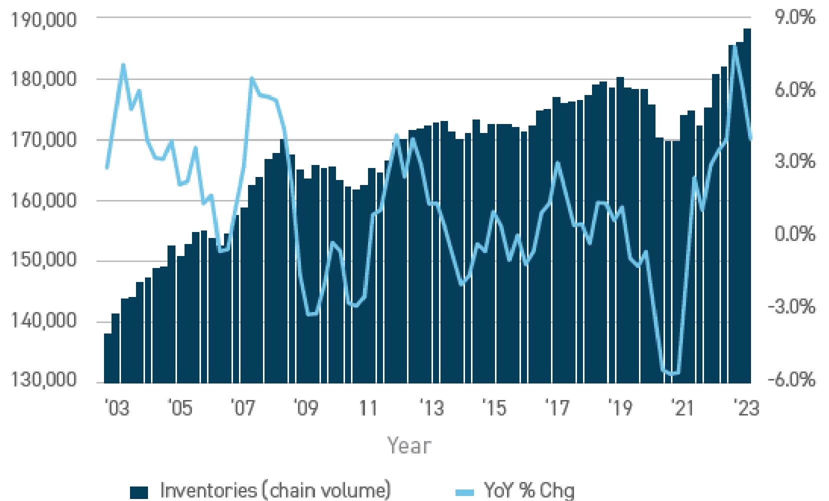


Figure 2: More space is needed to store stock
Australian Inventory Levels

Source: ABS (Mar-23); Cromwell.

A 2022 BCI Global survey found over 60% of respondents are expecting to onshore or re-shore (i.e. localise) activity in the next three years[8]. The push to diversify production and improve supply chain resilience is being supported by the Government through the $15 billion National Reconstruction Fund. It should expand the manufacturing industry in Australia and increase demand for associated industrial real estate.

Infrastructure

Infrastructure development is a key priority in Australia as we contend with ongoing urbanisation and densification, along with surging population growth. Across the 2022-23 Budgets, $255 billion in government expenditure was allocated to infrastructure for the four years to 2025-26, an increase of $7 billion or 2.7% compared to 2021-22[9]. In dollar terms, NSW has the highest allocation to infrastructure ($88 billion), while QLD saw the largest increase on the previous year ($5.7 billion). The three East Coast states of NSW, Victoria, and QLD account for 83% of the committed infrastructure funding.

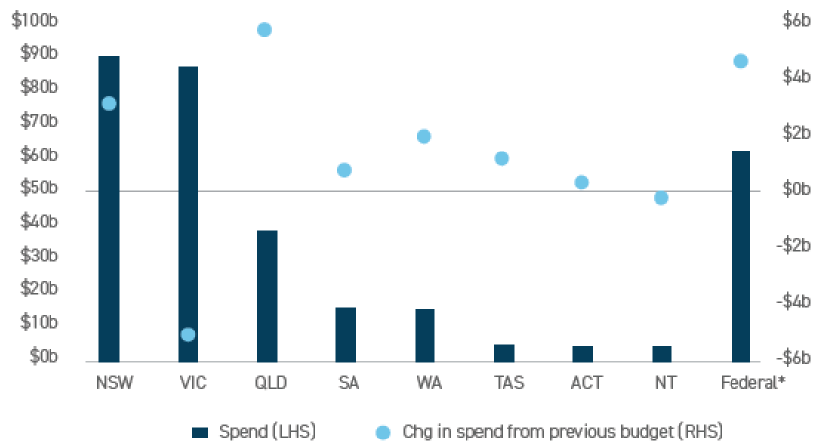


Figure 3: Budgeted infrastructure spend: 2023-26

Source: Infrastructure Partnerships Australia (Nov-22); Cromwell
**The Federal Government primarily funds state infrastructure projects*

Infrastructure investment stimulates demand for industrial real estate in a couple of ways. As new infrastructure is built, congestion and connectivity improve, lowering transport and operating costs and allowing more efficient movement of people and goods. This helps businesses to grow and increases the supportable population base. More activity and more people, mean more demand for industrial space to power the 'engine room' of a bigger economy. The more direct source of infrastructure-related industrial demand occurs during a project's construction phase, as space is needed to manufacture, assemble, and store materials and components.

Customer proximity

The time it takes to reach the customer is of critical importance in modern supply chains. Customers increasingly expect products to arrive faster, more flexibly, at the time promised, and with lower delivery costs. While not a driver of aggregate space demand, the focus on customer proximity does contribute to stronger rental growth for well-located properties.

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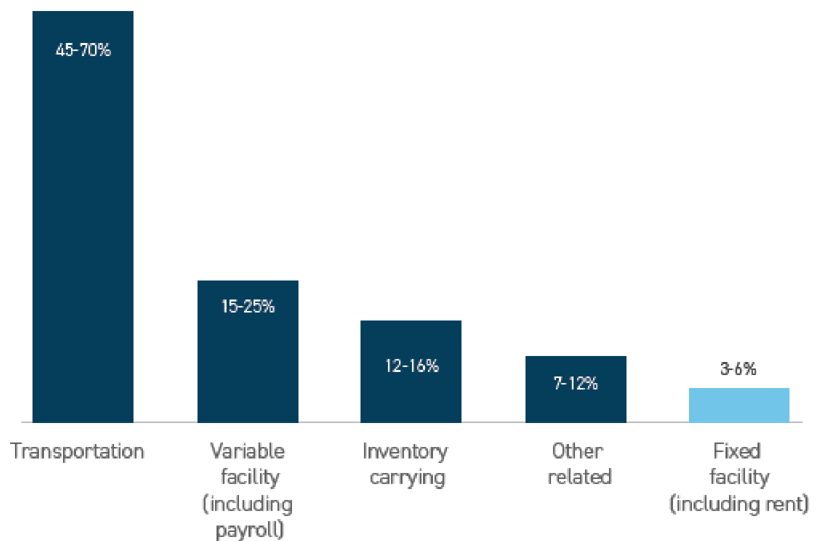
Transport accounts for 45-70% of logistics operator costs compared to 3-6% for rent[10]. This low proportion of cost means well-located industrial assets with good transport access and proximity to customers have long runways for rental growth, as occupiers prioritise lower (cheaper) transport times – an up to 8% increase in rent can be justified if a location reduces transport costs by just 1%.

Figure 4: Share of logistics costs

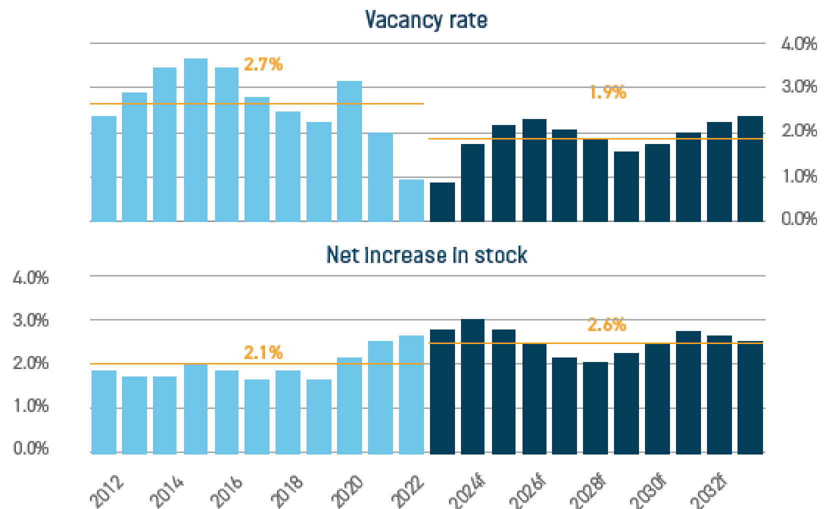


Source: 2022 Global Seaport Review, Dec-22 (CBRE Supply Chain Consulting)

But what about supply risk?

While the demand drivers for industrial are clear, the supply-side response is just as important in determining asset performance. In previous cycles, downturns have arisen from excess speculative development creating too much stock and dampening rental growth. But there are several reasons why the sector is insulated from a supply bubble this time around. Firstly, labour and materials shortages are making it challenging to physically build new assets, even though development is commercially attractive. Secondly, there is a lack of appropriately zoned, serviced land available for development. While land is becoming available farther out from metropolitan centres (e.g. Western Sydney Aerotropolis), this land is not appropriate for many occupiers or uses which require closer proximity to customers. It will also take time for this land to become development-ready, due to planning, infrastructure (e.g. road widening), and utility servicing (e.g. water connection) delays. Finally, the sector has matured and become more 'institutional' over the current cycle, with a shift in ownership from private capital to large, sophisticated owners and managers. Institutional owners take a more cautious approach to development, contingent on higher levels of tenant pre-commitment, reducing the risk of a speculative supply bubble. These factors will make it difficult for supply to keep pace with – let alone surpass – demand.

Figure 5: Vacancy rate forecast to remain below pre-COVID average despite higher supply
Indicative East Coast Industrial, Buildings >5,000sqm (YE Jun)



Source: Oxford Economics Limited (Feb, May & Jun-23); Cromwell

Demand story remains intact

Industrial has been the "hot" sector in recent years, and it's reasonable to question whether it's been squeezed of all its juice. The pandemic provided a boost to many of industrial's demand drivers (e.g. e-commerce) and introduced new ones (e.g. supply chain resilience). While these tailwinds have abated somewhat from their pandemic highs, they continue to contribute to a positive demand outlook. Arguably more importantly, the supply response remains constrained by shortages (e.g. labour/materials/land) and delays (e.g. planning), and it will take several years for the sector to return to a more normal supply-demand balance. As a result, Cromwell expects healthy rental growth to be a key driver of industrial returns, and for the sector to remain attractive despite expansionary pressure on cap rates.

[1] The Property Council-MSCI Australian All Property Digest, June 2023 (MSCI)
[2] Australia's Industrial and Logistics Vacancy 2H22, December 2022 (CBRE Research)
[3] Logistics & Industrial Market Overview – Q1 2023, May 2023 (JLL Research)
[4] What Do Recent E-commerce Trends Mean for Industrial Real Estate?, Mar-22 (Cushman & Wakefield Research)
[5] Australia's E-Commerce Trend and Trajectory, September 2022 (CBRE Research)
[6] Projection based on historical 15-year retail sales growth of 4.0% p.a. (Cromwell, Jun-23)
[7] Is 'Just-in-Time' a relic of a time gone by in Australia?, March 2023 (JLL)
[8] Global Reshoring & Footprint Strategy, February 2022 (BCI Global)
[9] Australian Infrastructure Budget Monitor 2022-23, November 2022 (Infrastructure Partnerships Australia)
[10] 2022 Global Seaport Review, December 2022 (CBRE Supply Chain Consulting)

Colin Mackay is a Research and Investment Strategy Manager for Cromwell Property Group. Cromwell Funds Management is a sponsor of Firstlinks. This article is not intended to provide investment or financial advice or to act as any sort of offer or disclosure document. It has been prepared without taking into account any investor's objectives, financial situation or needs. Any potential investor should make their own independent enquiries, and talk to their professional advisers, before making investment decisions.

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Should access to super and pensions depend on life expectancy?

Noel Whittaker

Editor's Note.

Noel sent this piece in response to my editorial comment on the Voice referendum and access to superannuation, which is reproduced below. Firstlinks specialises in pension and superannuation content, as well as investing, and there is a legitimate discussion on whether access should relate to life expectancy rather than age. Readers commented, for example, that there might be a case for men to have earlier access than women because men live shorter lives.

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From last week's editorial

I have no intention of giving a personal opinion here on the referendum on the creation of an Indigenous Voice to Parliament so I simply quote this exchange on possible implications for superannuation. ABC Podcasts is running a series called 'The Voice Referendum Explained' with presenters Fran Kelly and Carly Williams. In the first full episode on 23 August 2023, there is this exchange with **Tony McAvoy SC** who specialises in native title claims and is a strong supporter of the Yes vote.

Carly Williams: But people still want to know, how would this Voice work and what kinds of issues would it be advising on?

Fran Kelly: That's right, Carly, I still want to know that. Tony McAvoy is firmly in the Yes camp but he's also Australia's first Indigenous Senior Counsel and an experienced barrister and he was on the Referendum Working Group so I thought he'd be a good person to ask about the kinds of things the Voice could advise on.

Tony McAvoy: One of the ones that I like to point people to is the superannuation legislation and the fact that it has been known for a long time that Aboriginal people do not have the life expectancy of the rest of the community. And I know personally know many people, including people in my own family, who have died before they've been able to retire and so it's a common thing in the Aboriginal community that people work all their lives and never get to retire.

And we should have in this country a conversation about whether superannuation legislation should be amended to allow us to access our superannuation earlier. The Voice cannot tell the government what to do. I cannot tell the government that must do this, but I can say let's have this discussion, and you make the decision.

Fran Kelly: That was so interesting to me, Carly. I've never thought about the shorter life expectancy of Indigenous Australians in terms of are they living long enough to enjoy their superannuation, for instance? That's a pretty straight up and down equity issue right there, isn't it? But unless it's pointed out to policymakers, it just might not occur to anyone.

Carly Williams: Absolutely. So that's the sort of thing the Voice could look at.

My only comment is to note that a leading Indigenous Barrister and Senior Counsel, when asked to identify a subject that the Voice might advise on, chooses early access to superannuation.

Graham Hand

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From Noel Whittaker

On 22 February 2023, the full Federal Court began hearing a case that could have huge implications across Australia. It was brought by 65-year-old Wakka Wakka man, Uncle Dennis, who was seeking to access the age pension three years early on the grounds that, as Indigenous men are expected to live for three fewer years than non-indigenous men, their pensionable age should be reduced correspondingly to 64.

His case argued that the Commonwealth's failure to account in the pension rules for differences in life expectancy breaches section 10 of the *Racial Discrimination Act*. His lawyer, Ron Merkel, KC, argued that indigenous people's lower life expectancy 'is closely connected to race'.

The court reserved its decision. The wealth of research about life expectancy has found that the main factors that determine life expectancy are exercise, diet, having a partner, and having a sense of purpose rather than race.

Lifestyle matters

There are parts of the world known as [the Blue Zones] where people regularly live to 100 – they include the islands of Okinawa, Japan; Sardinia, Italy; Ikaria, Greece; the Nicoya province of Costa Rica; and the Seventh-Day Adventists in Loma Linda, California – but the reason for their exceptional longevity is nothing to do with their race. It's to do with their lifestyle.

These communities consume around two to three pieces of fruit a day and three to five servings of vegetables. The disturbing fact is that less than 10% of the modern world eat this amount of fruit and vegetables daily although those who do have the lowest rates of heart disease and cancer in their communities. Furthermore, most of the Blue Zone people enjoy a glass of wine but not to excess.

It is a fact that the average life expectancy for an indigenous person in Australia is lower than that of a non-indigenous person, but that's the nature of the mathematics. 80% of indigenous people live healthy lives and would have the same life expectancy as other Australians, but there are about 20% who do not have a healthy lifestyle.

The effects of lifestyle on life expectancy are not confined to Australia. For example, in England, there is a 10-year difference in life expectancy between the North and the South. The greatest amount of binge drinking is in Newcastle at 29.2%. The lowest is in East Dorset at 8.8%. Chilton in Buckinghamshire averages 147 deaths per 100,000 a year from smoking; in Knowsley in the North West the proportion is 366 deaths a year per 100,000.

The final court decision

Recently the court handed down its decision. Despite recognising the ongoing gap in life expectancy, the Court stated that Uncle Dennis did not:

"enjoy the right to apply for and receive the age pension 'to a more limited extent' than non-indigenous men born on or between 1 January 1957 and 31 December 1957."

What troubles me most about this case is it ignores a whole raft of people who have a lower life expectancy due to a wide range of circumstances. Poverty, gender, and living in regional Australia are all elements that contribute to lower life expectancies for a range of people.

The time, effort and money spent on a case like this would be better used to create programmes that improve the life expectancy of all Australians, including indigenous people, whose life expectancy is shortened because of their circumstances.

Noel Whittaker is a leading authority on personal investing and financial advice and the author of 23 books including 'Retirement Made Simple'. This article is general information. See noelwhittaker.com.au.

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