



Mason calls for promotion of trust and confidence



Sir Anthony Mason

The patron of the SMSF Professionals' Association of Australia (SPAA), Sir Anthony Mason, has called on all participants in the financial services industry to promote trust and confidence in the industry by placing a commitment to professional standards above all.

Opening the 2014 SPAA SMSF National Conference in Brisbane, Sir Anthony also said the likely effects of amendments to the *Future of Financial Advice* (FoFA) legislation had been overstated.

"It is to the advantage to all the stakeholders in the financial services industry that their actions should be directed to promoting confidence in the industry," Sir Anthony said.

"That calls for fair and open dealing in an industry whose principal purpose, as its name implies, is to provide services rather than to sell products. Advisers are professionals. Salesmen, no matter how successful they may be, are not professionals.

"More than anything else, an emphasis on high standards of professionalism is likely to generate confidence in the financial services industry, and in particular in superannuation."

Sir Anthony said that FoFA amendments proposed by the Coalition government would not remove a financial planner's obligation to act in the best interests of clients, despite persistent commentary suggesting the amendments would significantly water-down consumer protection.

IT WOULD BE A SERIOUS MISTAKE TO THINK THAT A FINANCIAL ADVISER IS UNDER NO DUTY TO ACT IN THE INTERESTS OF THE CLIENT

"If it should come about that some aspect of the best interests duty – say, the catch-all provision – is to be wound back, it would be a serious mistake to think that a financial adviser is under no duty to act in the interests of the client,"

Sir Anthony said.

"Quite apart from other relevant statutory provisions, the common law recognises a duty on an adviser to act in the interests of its client.

"True it is that the provisions of the contract between an adviser and client can regulate the rights and duties of the parties to the contract, and at least to some extent the provision can preclude or limit the adviser's liability. But it would be unsafe to assume that cleverly worded contractual terms will always protect the financial adviser who is acting in his own interests rather than the interests of the client.

"And there is a case for saying that people entering into contracts with financial advisers should be warned or advised as to the existence and consequences of provisions that exclude or limit liability on the part of the adviser, or which have that effect by limiting the advice or the scope of the instructions given to the adviser; it is the use or perhaps even the abuse of such provisions that may give rise to problems in the future." ■

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SMSFs have role in funding infrastructure

Uncorrelated returns make the asset class an attractive part of a diversified portfolio. Ben Power reports.

SMSFs have a key role in funding Australia's massive infrastructure requirements, but more needs to be done in providing access to unlisted investments, according to Paul Foster, head of infrastructure for Australia and New Zealand at AMP Capital.

Foster told a conference session "Is infrastructure the Holy Grail for SMSFs?" that infrastructure is not a "holy grail" investment for SMSFs, but in a low-return environment and with a global infrastructure shortage, infrastructure's stable and uncorrelated returns made it an attractive part of a portfolio.

Australia is facing an infrastructure shortage. Engineers Australia and Infrastructure Partnerships Australia estimate an \$A700 billion spending shortfall on vital infrastructure.

But it comes as government balance sheets are constrained, leading to calls for private investors to step up.

Foster said that SMSFs represent a large, growing pool of capital that could be mobilised to finance well-structured infrastructure projects.

Industry funds have had long-term exposure to infrastructure, particularly unlisted assets and with more pushing into direct ownership. But SMSFs have little exposure.

Many SMSFs were burned during the GFC by listed infrastructure, with a number of listed vehicles performing poorly or failing due to poor asset selection and overleverage. "The market has cleaned up these messes," Foster said, adding there were a number of portfolios of listed and unlisted infrastructure assets out there being invested by managers with sound, long-term track records.

But Foster said investors are still nervous about listed infrastructure. One problem with listed infrastructure is equity-market risk, which makes unlisted

assets relatively attractive.

Given their size, SMSFs struggle to gain access to unlisted infrastructure assets.

Foster said fund managers such as AMP Capital are working to overcome that constraint, including the development of composite funds that "package and blend" both listed and unlisted infrastructure assets.

"They are the best of both worlds," he said, adding they had higher liquidity than direct investments. AMP's Core Infrastructure has a 50/50 split between global listed and unlisted assets.

According to Foster, adding a 15 per cent allocation of composite infrastructure to a traditional balanced portfolio, and replacing Australian equities, significantly enhances returns, cuts risk, and boosts the reward/risk ratio. But Foster said infrastructure does pose risks, including possible rises in real interest rates and political risk. ■

Longevity risk takes centre stage in debate about pension structures



Meg Heffron

The SMSF industry has been challenged to start thinking more about solutions to longevity risk as average life expectancies rise significantly.

Ipac South Australia executive director, Peter Crump, and Meg Heffron, from Heffron SMSF Solutions, told a session, "Pensions – what are they really about?" that SMSFs need to consider using their flexibility to manage longevity risk.

"SMSFs participants need to understand how much they need for 'mandated' life and 'extended' life," Crump said.

Life expectancies are surging, but

many Australians will live considerably longer than average. SMSFs need to increasingly address that risk.

One option is having two "pots": a core account; and a longevity account to fund a very long age. But there are challenges in designing a solution. Heffron said leaving the longevity account in accumulation phase creates tax issues; and there are discipline issues in creating separate pensions.

But SMSFs could "notionally" divide the core and longevity accounts. Crump said that would be an "intellectual" and not an administrative separation, which means SMSFs trustees could do it themselves. ■

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Peter Burgess

Advisers welcome a period of certainty

Peter Burgess says one benefit of the change of government is greater clarity about likely future rule changes.

The certainty brought by the new government to a raft of proposed superannuation rule changes should be welcomed by all self-managed super fund (SMSF) practitioners, according to the head of policy and technical for AMP, Peter Burgess.

Burgess says staying on top of rule changes is hard enough – earlier, SPAA patron Sir Anthony Mason commented that the law generally changes slowly, over long periods of time, except in superannuation – but responding to changes that are proposed but not enacted is even more difficult.

“It’s not easy,” Burgess says.

“But I think one of the positives we’ve got out of the last few months, with the change of government, is we now have some certainty.

“The Coalition has moved very quickly to determine which measures they are going to proceed with, and which measures they’re not. In many cases,

that’s what we’re asking for, and that’s what practitioners need in this line of work: certainty, in terms of what’s going to change and what’s not going to change.

“One of the good things the new government has done is move very quickly to clarify that. So we have a pretty clear picture now.”

Burgess says that given the measures the government says it will proceed with are by and large measures put up by the previous government, “you would expect that it will get a pretty clear passage through the parliament”.

“We didn’t necessarily have that clarity this time last year when for a few of the measures, there wasn’t bipartisan support, and we found they didn’t go ahead with banning off-market transfers, and things like that,” he says.

“I think this time around we have a bit more certainty in terms of what’s coming this year.” ■

SPONSORED EDITORIAL

Reasons to think earlier about life insurance

Damian Mu says 18 months have passed since the SIS regulations required SMSF trustees to consider the life insurance needs of its members or risk penalties of up to \$17,000.

An ASIC report released last year identified a number of areas where insurance advice could have been improved and three key problem areas were highlighted. Firstly, in many instances life insurance was only considered after the SMSF had been established. Secondly, life insurance was inappropriately excluded from the scope of advice. Thirdly, where advice was given to keep some money in an APRA-regulated fund for life insurance purposes, the advantages and disadvantages of this approach were not discussed.

There are good reasons why there is a legal requirement to consider life insurance within the fund’s investment strategy. The investment strategy should consider the fund’s liquidity, expected cash flow needs and ability to discharge any existing or prospective liabilities. Life insurance can provide an effective strategy to address liquidity issues where a benefit needs to be released to avoid forced sale of assets and to service a limited recourse borrowing arrangement.

ASIC’s concerns have highlighted the need for SMSF trustees to consider life insurance on an annual basis and document decisions in the minutes of trustee meetings. New trustees will need to consider life insurance needs during set-up and existing trustees should have considered this in their last reviews. This is a good opportunity for advisers to revisit SMSF clients to ensure that life insurance has been considered, liquidity issues addressed and their obligations as a trustee met. ■

Damian Mu is general manager of life insurance for AIA Australia

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NAB lays down a marker



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Sugar high



Catering to the caffeine junkies



Dynamism of a SPAA delegate on a leash (2014) Matt Fatches



Hanging in there

Captured



Turns out it's easy being green



Three wise men: Graeme Colley, Jordan George and David Shirlow

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Limited licensing to be reviewed



Senator Arthur Sinodinos

The Assistant Treasurer, Senator Arthur Sinodinos, has committed to examining whether the limited licensing regime can be extended to members of the SMSF Professionals' Association of Australia (SPAA).

The chief executive officer of SPAA, Andrea Slattery said SPAA has "specialist members who are seen and are known to have extended themselves beyond that which is expected by the government, and the minimum standard".

"The opportunity for SPAA members to be involved in the limited licensing exemptions – it only applies to JAB members because they were the only ones who had the exemption at the time, in 2003 – perhaps we could pop that onto your agenda?"

Sinodinos said he is "happy to have a look at that, absolutely".

Sinodinos said he will also examine the treatment of self-managed super funds held by expatriates. Currently Australians working overseas cannot effectively

continue to contribute to their SMSF because, among other issues, they fail the "active member" test.

A too-common course of action for someone receiving an overseas posting is to wind-up their SMSF.

"I am happy to look at it," Sinodinos said. "But you must always remember that one of the reasons we have some of those rules around needing funds located and administered in Australia...is that we are providing certain concessions in Australia.

"You do not want a situation where we're creating potential – for want of better words – an overseas wealth accumulation vehicle.

"But I am happy to talk to you further

about anomalies and inconsistencies in that regard."

Sinodinos confirmed that the government was not planning an SMSF-specific review of any kind, including into limited recourse borrowing arrangements. And he said the government was not campaigning against industry funds.

"Industry funds...are a respected and legitimate part of the superannuation landscape," he said.

"No one is out to do them in, or anything else. The dilemma I face as the minister in this space is you have all these different business models...and having one-size-fits-all regulation is difficult in this area. ■

SPONSORED EDITORIAL

Key themes that drive support for SMSFs

Tim Keegan explains new research into trustees' needs.

Self-managed super fund (SMSF) investors are a diverse and unique group which can be harder to catch than a flight of butterflies at times. During the last year, through focus groups, investor interviews and insights from our growing SMSF administration and technical teams, we've been building a clearer understanding of who they are and how we at AMP Capital can help.

The key themes we've recognised are:

Need for income: As we mark the point where more than 50 per cent of SMSF investors are now in their

retirement phase, having stable, reliable sources of income without drawing off capital has never been more important. With the term-deposit rates so low, specialist investments such as high yielding commercial property or low volatility corporate bonds are a way these SMSF investors can take advantage of new opportunities.

More than just Aussie equities: Asset allocation by SMSFs has historically been skewed to direct equities and cash/term deposits. There remains demand for professional management where it's proven to add value, help investors access investments they couldn't otherwise, have strong performance

and provide transparency to the underlying assets.

Ease of access: With the rise of digital technology, helping investors to easily access and manage their wealth has without doubt become one of the biggest challenges. Investors expect – and deserve – to be able to access specialist investment opportunities as easily as they can buy and trade shares online. The ASX m-Fund, of which we are foundation members, is one way of making access to managed funds easier and there's much more that can be done. ■

Tim Keegan is head of SMSF for AMP Capital

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Andrea Slattery

Vision, determination to build the future

Andrea Slattery says the SMSF industry needs a leader that understands its diverse interests.

The best interests of self-managed super fund (SMSF) trustees will be served by the development of a highly professional and technically competent profession of advisers, according to the chief executive officer of the SMSF Professionals' Association of Australia (SPAA), Andrea Slattery.

Slattery says the development of an SMSF advice profession "requires leadership and an overarching strategy" to capitalise on this opportunity.

"The diverse nature of the SMSF sector demands an industry leader to bring the vision together; a group who understands the industry's diverse interests, and can represent those diverse interests in a way in which that industry can flourish," Slattery says.

"SPAA, I believe, is that group. We have the vision and the determination to build the future with you, and for your clients. But we can't do it alone. I therefore am going to challenge you ... and it's not only for today or for the conference, but it's for the future: can you afford not to be a member of SPAA?"

"We will present you with opportunities for growing a sustainable career path and a business opportunity; we will increase professionalism in the sector and continue to challenge that; and we'll help you to be informed about future challenges so that

you can meet them head-on."

Slattery says she is focused on professionalism because the growth of the SMSF sector "demands the profession continually reinvigorates or challenges itself and its preconceptions".

"I recently read a report by Deloitte, it was titled *Positioning for prosperity: Catching the next wave*," she says.

"What caught my eye was how the wealth management industry, underpinned by superannuation, has the opportunity to be one of the five engines of Australia's economic growth by the end of the decade.

"They identified three reasons for this, and they were: our skilled workforce; Australia's trusted reputation; and our near vicinity to the Asian market.

"The report also acknowledged potential risks – those being, technology changes and keeping up with them; and the potential for competency to not maintain the level that it should.

"With the first generation of Australians having accumulated substantial assets under the current superannuation system, to meet these challenges and opportunities you are going to need to continue to deliver high-quality competent advice and to manage the dollars that are now in pre-retirement and post-retirement phases." ■

Intimate with SMSF numbers

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\$16.4b

How much more SMSF members would have contributed to super if not for the concessional contributions cap.

That works out at

\$54,136

 per SMSF trustee

36%

AVERAGE SMSF EXPOSURE TO AUSTRALIAN SHARES

70%

of respondents identify "de-risking" portfolios as a key issue as they approach retirement

12.3%

of superannuants intend to set up an SMSF in the next five years.

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Final Word



When did SPAA go all hippie?

From the surf-inspired "Ride the Wave" conference theme, to the choice of music: "Happy", by Pharrell Williams (if this is familiar to you it might be because it's from the Despicable Me 2 movie – at least, that's where Final Word knows it from); "Feel The Love", by Rudimental (feat, it says here, John Newman - this song's only real feat is to combine two artists Final Word has never heard of); and "Sitting On Top Of The World", by someone called Delta Goodrem, who is apparently famous for appearing on a television talent show and for spruiking pimple cream.

Happy-clappy stuff is not what you necessarily associate SPAA with, so it was good to hear that AMP's head of policy and technical, Peter Burgess, is a fan (albeit a recent and not, apparently, a wholehearted one) of the working man's rock hero, Bruce Springsteen, after attending a concert. But how typical is it of a technical guy to complain that one of the world's great performers started his gig an hour late?

Put a plug in it

It's always fun to watch the exhibition stands being set up. What's particularly noteworthy is the apparent difficulty some of the technology companies seem to have getting things like TV monitors and PCs to work.

A member of one exhibitor's staff managed to interrupt his company's set-up routine by, while setting up part of a display, mangling a vital cable. When Final Word left them, they'd dispatched a colleague to a local electrical supplies store to source a replacement.

Final Word can't claim to be an actual technical genius, though. After picking up a snazzy USB card from Andy at the Act2 stand, it spent several long frustrating minutes cursing Act2 and everything it stands for after being unable to plug the card into its laptop. It was only after a slightly more technically savvy colleague pointed out Final Word's error it got everything sorted – it had been trying to plug it into the HDMI port. The USB card works fine.

WHAT A DIFFERENCE A WORD MAKES

The Cloud. For quite a long time Final Word thought this was the name of a WWR contestant, but it turns out that in fact it is A Very Big Thing in computing. Or it's The Next Big Thing. Or something. But whatever it is, or turns out to be, Steve Day, head of support, Asia Pacific, for Amazon Web Services, explained at some length why the Cloud (is it even a proper noun?) is an essential element in any company's ability to innovate. And innovation, he says is often rooted in disruption. And that got Final Word thinking about what a very big difference one very little word can make. If your business can innovate successfully then you could say that your success is rooted in disruption. And if it can't innovate successfully, then you can expect your future to be rooted by disruption.



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