Insights and Investment Solutions

Winter 2019

Welcome

In our 2019 Winter edition of Insights and Investment Solutions magazine, read the latest market update on local and international markets.

We take a look at sustainable investing and how investors are increasingly interested in how a company makes money, not simply how much it makes.

Finally, we share seven super strategies for end of financial year.

Until next time – happy reading.

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Market update

Investors brace for another bout of market volatility as US-China relations take a turn for the worse, with a brewing tech cold war now on the agenda.

Equity markets lost steam over May breaking the start of 2019's four-month rally. Though, on a total return basis, the US S&P 500 was down -5.1%, the ASX 200 defied global momentum, rising 1.7% mostly supported by rising iron ore prices, and the Coalition's election win.

In latest US-China developments, President Trump has blacklisted Chinese tech firms deemed a national security threat, restricting the likes of Huawei and ZTE from doing business with American companies, following a breakdown of trade negotiations and a subsequent increase in tariffs. The move has aggravated China who has since signalled little interest in resuming talks with the US while retaliating with threats of their own.

The International Monetary Fund (IMF) has warned that the US-China trade war has already caused substantial damage, and that a failure to resolve differences alongside further escalation in other areas could dent business and financial market sentiment.

While the US Fed's patient approach towards monetary policy is believed to be appropriate for now, the Fed will be watching incoming economic and financial data closely to assess the case for a shift in monetary policy direction. A cut to interest rates could become a more attractive option if inflation continues to disappoint with annual core PCE, the Fed's preferred measure of inflation, having been reported to hold at 1.6%, below the Fed's 2% target.

Of some relief, the Eurozone economy was reported to have expanded by 0.4% in the March quarter. The past month's data has been positive, with the final reading for core consumer price inflation in April recording the firmest pace since mid-2015 at 1.3% year-on-year. Meanwhile, Italian political tensions heighten as the country's Deputy Prime Minister grows increasingly prepared to breach EU Budgetary guidance. On Brexit, the path remains clouded with uncertainty as Prime Minister May announced her resignation, following an attempt to push her many-times amended Brexit deal through parliament for a fourth time.

Domestically, the Reserve Bank has left the cash rate unchanged at 1.50%, but with unemployment having inched up to 5.2%, despite ongoing jobs growth, consensus is favouring up to 3 cuts in the cash rate over the next few months. In other news, the Coalition retained government having won the Australian Federal Election, against all expectations of a swing in favour to the Labor Party. The Morrison Government's victory served as a relief to the markets with the threat of Labor's policies targeting franking credit refunds and changes to negative gearing off the agenda.

Information current as at 3 June 2019.

Sustainable investing

There is no doubt that interest in responsible investments is growing.

Not only in Australia but globally, investors are increasingly interested in how a company makes its money, not simply how much it makes.

While some investors may focus on the longer-term viability of a company and its behaviour, others may hold particular values they want their investments to mirror. How these two strategies play out in the investments context can be different. We explore the rise of sustainable investing in more detail.

Changing investors' perception

Even at the highest level, investors are shifting from only looking at short-term returns to a broader focus on long-term value creation, including the impact a company is having on those around them.

In his 2017 letter to the CEOs of the companies his firm invests in – Blackrock CEO, Larry Fink, highlighted this exact issue noting that "To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate".[1]

More and more investors are asking CEOs to focus not only on creating shareholder value, but also on long-term vision for the company, and, by extension, the impact it will have on society via investing sustainably.

It's not a new idea

Today, many investment managers, including BT, use environmental, social and corporate governance (known collectively as ESG) knowledge and data. It can help to inform the analysis of important areas including risk and innovation to engagement and voting practices.

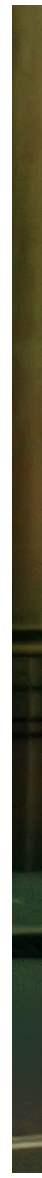
Examples may include a company's interaction with the environment, such as water and air pollution, social factors like employee diversity or safety standards, along with the company's governance structure, such as how the board is composed and compensation structures. This approach seeks to add value or manage risks through broader, more comprehensive investment analysis, decision-making and engagement with companies.

Investing opportunities

For investors, navigating the world of responsible investment can be complex. Terms like ethical, sustainable and impact investing are often used interchangeably by investors seeking to ensure that their money is invested in companies or funds that mirror their values and beliefs. In reality, these terms each relate to a specific type of responsible investing – depending on what the investment is trying to achieve.

Ethical investing verses sustainable investing

Arguably, the most well-known responsible investment strategy among investors is ethical investing. This strategy's primary purpose is to exclude certain industry sectors, companies, practices or even countries that meet specific criteria from a fund or portfolio, based largely on the client's preference not to be invested in these activities. Traditional ethical investment strategies seek to avoid issues like tobacco, weapons, gambling, and pornography, however, investors are increasingly interested in strategies that avoid sectors linked to climate change or abuse of human rights.



[1] https://www.blackrock.com/corporate/investorrelations/2017-larry-fink-ceo-letter

Sustainable investing, in contrast, is a type of responsible investing that considers ESG issues in an investment, alongside standard financial measures when assessing a company's performance. This might include how a company approaches employee relations, executive remuneration and anti-money laundering legislation.

Sustainable investing also lends itself to longer-term investment horizons and strategies. If more investors use a sustainable strategy in their investment decision-making, more and more companies will be encouraged to behave sustainably and address ESG concerns and opportunities in their business.

Impact investing is a rapidly developing field

You may also have heard about the rapidly developing field of impact investing. Impact investments preference the social or environmental purpose of an investment over or alongside its financial results. Whilst there are currently few opportunities to access impact investments for most retail investors, many people are attracted to the idea of investments that aim to deliver a positive outcome as an alternative, or complement to traditional philanthropic funding.

Seven super strategies for end of financial year

The end of the financial year is a good time to think about how you could grow your super by taking advantage of tax concessions. Here are some options you could consider to help reduce your taxable income while boosting your super.

Tax-deductible super contributions

You may be eligible to claim a tax deduction for your personal super contributions. That is, any additional money you contribute to your super on top of what your employer is already paying on your behalf. By doing this, you may be able to pay less tax while saving more for your future.

Your age, sources of income and contributions made will affect your eligibility to claim a tax deduction. You must also give a notice to the Trustee of your super fund and have it acknowledged.

Keep in mind that personal deductible contributions count towards your annual before-tax contributions cap. The current before-tax contributions cap is $25,000 per financial year. Any contributions made above these limits will be subject to additional tax.

Salary sacrifice to top up your super

Salary sacrifice is an arrangement where you agree to contribute part of your before-tax income into your super. This could be an effective way to boost your super and take advantage of tax benefits depending on how much you earn.

To get started, do a budget to work out how much you can afford to contribute to your super from each pay packet. You may also consider talking to your employer to find out if they can set up salary sacrifice arrangements for you.

Keep in mind that salary sacrifice contributions count towards your annual before-tax contributions cap of $25,000 per financial year. Personal deductible contributions and contributions made by your employer also count towards your annual before-tax contributions cap.

Consider a one-off top up

After-tax super contributions are made from money you have already paid income tax on and won't be claiming a tax deduction on. For example if you work for an employer, making a contribution to super directly from your bank account is considered an after-tax contribution.

Investment earnings within your super accumulation account are taxed at up to 15%, compared to your marginal tax rate which applies to investments you may hold outside of super. Please note that depending on your income level, your marginal tax rate may be less than 15%.

The annual limit for after-tax contributions is currently $100,000 if your total superannuation balance is below $1.6 million at the start of the financial year. In certain circumstances, you may be able to bring forward three years of after-tax contributions into one year, contributing up to $300,000, if you haven't triggered the rule in the previous two years and your total superannuation balance is below $1.4 million at the start of the financial year. You may still be able to contribute part of the bring-forward if your total superannuation balance is between $1.4 million and $1.5 million at the start of the financial year

Government co-contribution

If you are a middle to low income earner, adding to your super from after-tax money could see you entitled to a government co-contribution worth up to $500.

To be eligible, you need to earn less than $52,697 in the 2018/19 financial year and be aged below 71 at 30 June 2019. You must also have a total super balance of less than $1.6 million at the start of the financial year.

The maximum co-contribution of $500 is available if you earn less than $37,697 in the 2018/19 financial year and if you have made a contribution yourself of at least $1,000. The co-contribution steadily reduces as your income rises and until it reaches zero at an annual income of $52,697.

Spouse super contribution tax offset

If your spouse or partner's assessable income is less than $40,000 in a financial year, and you decide to make super contributions on behalf of your spouse, you may be able to claim a tax offset for yourself.

The maximum tax offset available is $540 if your spouse receives $37,000 or less in assessable income in the 2018/19 financial year. The tax offset is progressively reduced until it reaches zero for spouses who earn $40,000 or more in assessable income in a year.

First home buyers

You may be able to make additional contributions to use as a deposit for your first home under the First Home Super Saver Scheme (FHSSS) starting from 1 July 2017, subject to meeting eligibility criteria. Whether using concessional or non-concessional contributions, the total amount of contributions you can withdraw is capped at $15,000 a year (or a maximum of $30,000 in total).

Downsizer contributions

From 1 July 2018, if you are planning on downsizing your family home of ten years or more and are aged 65 or over, you may be able to contribute up to $300,000 ($600,000 for a couple) from the sale proceeds to super. This does not count towards your before or after-tax contribution caps.

Be aware of annual limits

As annual limits apply to the amount you can add to your super each year, it is important to consider how much you have already added to your account (or accounts) during the financial year.

This information is current as at 30 May 2019. This information has been prepared without taking account of your personal objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation and needs. Superannuation is a means of saving for retirement, which is, in part, compulsory. The government has placed restrictions on when you can access your investment held in superannuation. The Government has set caps on the amount of money that you can add to superannuation each year on both a concessional and non-concessional tax basis. There will be tax consequences if you breach these caps. For more detail, speak with a financial adviser or visit the ATO website. BT cannot give tax advice. Any tax considerations outlined in this article are general statements, based on an interpretation of the current tax law, and do not constitute tax advice. The tax implications of superannuation can impact individual situations differently and you should seek specific tax advice from a registered tax agent or registered tax (financial) adviser.

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