DIVIDEND DETECTIVE

Pure play REIT that pays for backers

INDUSTRIA REIT
ASX code: IDR
Security price: $2.35
FY1 value: $2.39
Industry: Industrial REITs
FY18 forecast distribution: 16.5c per share

DAMEN KLOECKNER

Industria REIT is a small-cap REIT (or property trust) with an increasingly diversified and attractive industrial and office property portfolio.

It is what you might call a property pure play with no development activities guided by an experienced external manager in APN Property (APD), making it ideal for yield-seeking investors.

Though IDR has been a solid and consistent performer since its 2013 listing, a very positive recent market update once again brought it to attention.

Not only did IDR announce a move to quarterly distributions but also confirmed funds from operations (FFO) would be at the top end of its guidance range. IDR also announced an 8 per cent uplift in net tangible assets (NTA) per unit to $2.26 and as a result, gearing (total debt/assets) in FY17 is expected to be at the lower end of its targeted 30-40 per cent range.

The portfolio itself has also improved markedly in recent times. For one, it has significantly reduced its exposure to the Brisbane office market, which though much healthier now, remains potentially volatile. In doing so it has brought in attractive assets such as WesTrac Newcastle, diversifying IDR's geographical footprint and increasing its weighted average lease expiry (WALE).

With occupancy of 96 per cent, a WALE of 7.8 years and conservative gearing, IDR's portfolio looks better than ever.

At current prices, it is trading at a modest premium to NTA, which is appropriate in this case. With an annualised yield in excess of 7 per cent and contracted rental increases of around 3 per cent per annum across its portfolio, IDR remains one of the most attractive income stocks in this space. Investors owning the stock before the next ex-dividend date (June 29) are likely to receive about 25c of income over the next 14 months, an effective 10.7 per cent yield at current prices.

Going forward, manager APN Property remains highly aligned with IDR unit holders given it holds about 15 per cent of the REIT (plus an additional 7 per cent on behalf of its clients).

For those with a nose for corporate intrigue, you may also notice 360 Capital, potentially a consolidator in this space, holds 18 per cent of the stock.

Damen Kloeckner is an analyst for the Clime Australian Income Fund www.clime.com.au/caif. Clime Asset Management owns shares in IDR.

Millennial-focused robo funds deserve a chance

The arrival of new, innovative offerings should be celebrated

JORDAN ELISEO

HOLLIE ADAMS

Spaceship, under CEO and founder Paul Bennetts, is a high-growth fund openly targeted at young Australians

One of the most interesting things to happen in our super system for a long time is the arrival on the scene of so-called millennial-focused robo-adviser companies such as Spaceship, Stockspot and Zuper.

These new, innovative companies trying to crack the close-knit community of superannuation should be celebrated. Instead they have been met with criticism, some of it quite scornful.

The argument against these companies runs something like this: millennials don't need to control their superannuation, these new entrants are putting up fees that are outrageously high, and finally that they don't know how to manage money!

This is totally wrong.

People want to control their super — why else do we have a self-managed super fund sector with more than $600 billion under management? There is every reason to believe that is true for every age group.

In fact, it's going to be all the more true for millennials because, unlike their parents, this generation is bound up in super obligations like none other. Remember superannuation will take 9.5 per cent of their income every year they work.

In fact, that number will go higher in the years ahead.

As such, superannuation is going to be the biggest financial asset most millennials build. Given how much harder it is to buy a house now, it may well be their most important asset.

Michael Rice, a veteran of the financial services industry and CEO of Rice Warner, has criticised millennial super funds quite sharply. Rice said the funds were "heavily marketed to the young and gullible" and that the fees on many of the products were outrageous.

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That comment regarding the gullibility of young Australians is almost offensive, especially given the myriad critiques levelled at the super industry to this date.

Of course, cost is important and, in an era where the surge towards passive low-cost investing seems unstoppable, we can understand why there is such a focus on fees today. But we would make three points on this.

• The first is that this fee obsession is borderline unhealthy: for the financial services industry and for investors. After all, in what other important area of our lives are we so fee-obsessed? Do we eat the cheapest food, send our kids to the lowest-cost school, or visit bargain basement healthcare professionals, just because they are the lowest cost? Of course not.

• Second, although the new super entrants are at the higher end of the cost scale, they are transparent about what they charge, as well as their intent to reduce fees as they scale.

Incumbents in the industry hardly have a great track record of delivering low-cost solutions. Australians today pay more than $30bn a year in superannuation fees, with research from the Grattan Institute indicating fees across the industry are roughly triple the OECD median.

• Third, we come to the issue of investment experience, and the management of client money. The new entrants have to play by the same rules as the incumbents. They are regulated by APRA; all the funds have a responsible entity, must issue a product disclosure statement and have a financial services licence.

Indeed, in the case of Grow Super, they are working with Dimensional Fund Advisors, which manages $600bn and have been in investment management since 1981.

Spaceship, a high-growth fund openly targeted at young Australians, has just over 90 per cent of its money in growth assets, with the rest in cash and fixed income.

Aggressive, but hardly out of whack with what might be deemed its peers. In fact, if you look at our biggest industry fund, Australian Super, the latest asset allocation for its high-growth fund had 91 per cent of its money in growth assets.

Critics of the new entrants also conveniently ignore the lacklustre returns generated by large industry and retail funds. The table (inset) highlights what Australians have got back for the $230bn in fees they have paid in the past decade.

These returns are before administration fees and adviser commissions. By way of reference, cash returned 4.1 per cent.

Consider the above from the viewpoint of a millennial. They've grown up in the aftermath of the GFC, witnessed volatile financial markets, and face record high levels of youth unemployment.

And when they look at the superannuation industry the government will force them to save in their whole working lives, they see largely indistinguishable service offerings, substandard user experiences, a lack of fee transparency, and poor returns that barely outperform cash and mimic the stockmarket.

Is it any wonder they are looking to shake up this industry?

Jordan Eliseo is chief economist at ABC Bullion.

How to use the new super catch-up rules

BRUCE BRAMMALL

It's never seemed quite fair that those making a one-off capital gain couldn't get a little extra into super to help with capital gains tax. And, as we all know, women end up with lower super balances because they tend to spend periods out of the workforce then can't catch up. But there is actually a wide range of people that can be disadvantaged by super contribution caps ... now all that is about to change.

From July 1, we get averaging for concessional contributions, also known as the "five-year catch-up provisions".

In essence, these will be a rolling five-year average, but you can only catch up in the past. That is, you can't put in, say, $50,000 to cover the current year's limit, plus the following year. You could put in $50,000 if you wanted to cover this year and, say, the previous year, if you hadn't made any CCs. Or for any year in the three years prior to that one also.

There are a few points to note about the new rules.

• First, you will only be able to use these five-year provisions if you have less than a total of $500,000 in super. Above that you are restricted to the same annual, use-it-or-lose-it, $25,000 CC limit as everyone else.

• Second, this new rule will gain most of its power for employees because of the removal of another rule — the "10 per cent rule".

The 10 per cent rule meant that anyone who earned more than 10 per cent of their income from being an employee could not make personal deductible contributions. They had to, in effect, use salary sacrifice through their employers.

This changes apply from July 1. Anyone will be able to make CCs up to their limit, simply by contributing to super.

• Third, it is only on July 1, 2017 (that is, the start of FY18) that the rule begins to work. You won't be able to start making extra contributions to make up for previous years until after FY19 begins, where you will be able to make contributions going back to FY18. It won't be fully operational until FY22, when people will be potentially able to contribute for the four prior years (FY21, FY20, FY19 and FY18).

So, where are the real advantages of this new rule?

Deal for self-employed

For the self-employed, particularly in the early years of operation, income can be very lumpy from one year to the next.

If the net income available for you to take home is only $40,000 for a given year, then opting to put some of that into super could be a tough decision to make, particularly if your personal annual expenses are higher than that and you haven't earned enough to meet those expenses.

But the following year (or some year in the next couple of years) comes, with a better income, of say $175,000, then making a total of $25,000 of contributions might be easier. You will also have the flexibility to make extra contributions to make up for previous year shortfalls.

Then there is the straight tax management for those self-employed people whose income regularly flops either side of the top marginal tax rate, which kicks in at $180,000.

If income bounces from $150,000 to $250,000 over the course of several years, it could make sense to pay larger amounts of super when closer to the top end of that range, and less when near the bottom en

Capital gains tax help

Made a big capital gain? Have some room left in your cap via the five-year catch-up rules? Here's how it can save you tax.

Let's fast forward to the 2022 financial year. You're an employee and your employer has been putting in $10,000 in CCs for you each year. But that's all the contributions that have been made on your behalf.

Between FY18 and FY22, your CCs would have amounted to $50,000 of a total of $125,000 in caps over that period

Bruce Brammall is a licensed financial adviser and writer for www.eurekareport.com.au, which is owned by InvestSmart.

Looming changes to regulations provide a chance to review SMSF trust deeds

MONCIA RULE

With the new superannuation laws taking effect from July 1, clients often ask me if their self-managed superannuation fund trust deed needs to be updated.

There is no correct answer here. But the questions does trigger a range of issues brought to light by the major changes to super in terms of both contributions and pensions that are due to take place on July 1. I'm not qualified to interpret trust deeds so I generally tell my clients that they should speak to the firm where they got their trust deed from or speak to an SMSF lawyer.

What has annoyed me a little lately is that some firms that prepare trust deeds are informing their clients to update their deeds. Most SMSF trustees are not sure whether the recommendation is because their trust deed does need updating or if this is just a cynical way for firms to make more money.

What you need to be aware of is that you are not legally obliged to update your SMSF trust deed just because the law has changed. Unless any of the changes are relevant to the members of your SMSF, your trust deed probably does not need updating.

A well drafted trust deed will usually accommodate most of the superannuation changes because it will have been written in a manner which allows you to maximise your options.

Nonetheless, it is the responsibility of the trustee to check their SMSF trust deed before making any decisions or actions.

While the superannuation law sets out the rules on how superannuation funds must operate, an SMSF trust deed sets out how the fund will operate within the scope of the superannuation law.

The way I see it, most of the SMSFs in the market need not have any immediate concerns in relation to their deeds, but there are a handful of particular issues that everyone should be aware from July 1 and it make senses to check the following issues:

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• The ability of an SMSF member to "roll back" money in their retirement pension account to their accumulation phase.

This is where the member's pension account exceeds the $1.6 million transfer balance cap.

• Trustees must not accept contributions in certain circumstances and refund contributions that should not have been accepted.

• Trustees will be required to pay excess transfer balance tax where a member has more than $1.6m in their retirement pension account.

• Altering the terms and conditions of an income stream. This will allow reversionary beneficiary nominations or will allow changes to the nomination of a reversionary pensioner without stopping the pension.

• Automatic pension status changes from a transition to retirement income stream to a retirement pension when a condition of release is met.

• Dealing with segregated and unsegregated assets to provide for a CGT relief election.

• Determining whether to retain or cease transition to retirement income streams.

• Calculating member balances across various superannuation funds.

• The ability to create various death benefit instructions. This is so death benefit recipients do not exceed their transfer balance cap when receiving a death benefit.

• The ability to roll over a death benefit without losing its death benefit status.

If none of these changes apply to any of the members of your SMSF, then there is no need to update your SMSF trust deed.

However, updating the trust deed will give the trustee more flexibility in case any of the members wants to implement investment and estate planning strategies to take advantage of the changes to the superannuation laws.

In other words, there may well be opportunity in the months ahead as well as reasonable concerns that your fund is doing the right thing. If you are not sure whether you should update your trust deed, it is always a good idea to talk to a trusted adviser to get their opinion.

Monica Rule is an SMSF specialist and author of The Self Managed Super Handbook.

www.monicarule.com.au