

# Apple's Aussie bonds offer a save haven

The tech giant boasts a sound credit rating and yield potential

ELIZABETH MORAN  
SMART INCOME



Apple, maker of iPhones, iPads and other products, is one of the world's greatest companies: in a curious twist of fate it does not have shares traded in Australia but it does have its corporate bonds available in Australian dollars.

Last month Apple issued three bonds to much fanfare. Combined, the \$2.25 billion issue was the largest ever corporate bond deal in Australia's history, more than double that of the \$1bn BHP Billiton issued in 2012.

Importantly, the bond issues were also the first time Australian investors — with \$50,000 to invest — could access the global powerhouse in Australian dollars.

When the bonds were announced they generated much excitement among institutional investors partly for sound investment reasons and partly because the massive Apple retail brand is the focus of intense attention whenever it releases a new product, be it a phone, a watch, or in this case, a bond.

Apple is the largest publicly-traded corporation in the world by market capitalisation — late last year becoming the first US company to be valued at more than



TOM HUNTLEY

Apple has more than \$US200bn of cash on its balance sheet, which contributes to its safe-haven status

\$US700 million and the world's largest technology company by total assets. It is also the world's second-largest information technology company by revenue behind Samsung Electronics, and the world's third-largest mobile phone maker.

The company has extremely strong liquidity, underpinned by almost US\$203bn (\$294bn) of cash and equivalents at 27 June 2015 (with about \$US21bn, or 11 per cent held within the US).

## Bond details

The largest of the three bond issues was a seven-year fixed rate bond paying 3.7 per cent, raising \$1.15 billion.

There are many reasons why institutional investors found the bonds compelling, despite the seemingly low returns, here are just a few:

## Diversification

Apple is one of the world's largest international corporations and

this is the only opportunity to invest directly in the company in Australian dollars.

Generally, new corporate bond issues that are not from a financial institution are highly sought after given that much of the domestic bond and sharemarkets are dominated by banks.

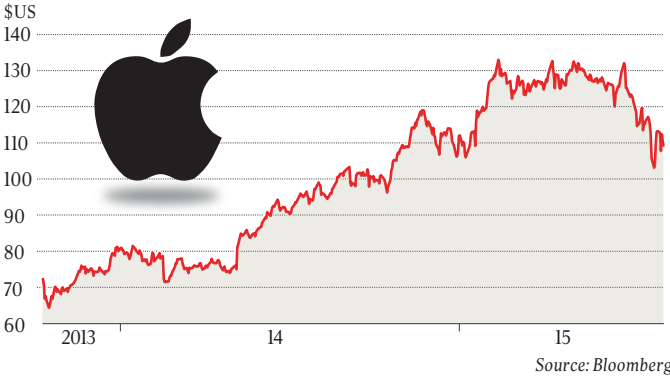
**Rated by Standard and Poor's as AA+**  
Few global companies have such a high credit rating, meaning the

company has a low risk of default. This provides investors with a lot of certainty in terms of being paid interest and getting capital back at maturity. Over the last 33 years, Standard and Poor's global cumulative chance of default for a AA+ rated security over seven years was just 0.29 per cent.

## The return given the risk is attractive

The only other AA+ rated corporation that has outstanding Australia

Apple share price, past two years



Source: Bloomberg

## Interest rates will remain low for the life of the bonds

Interest rates are low and forecast to remain low for some years. Institutional investors would have shunned the fixed rate bonds if they expected interest rates to rise strongly in the next seven years.

## Likelihood the bonds will be included in the Bloomberg Aus-Bond indices

This means funds trying to replicate the indices will need to hold it in their portfolios and thus ensures a certain level of underlying demand. The bonds were first issued with minimum investment parcels of \$500,000 though they have now become available to retail investors through intermediary product development.

Elizabeth Moran is a director of education and research at FIG Fixed Income Specialists. [www.fig.com.au](http://www.fig.com.au). Disclosure: FIG deals in Apple bonds, wholesale and sophisticated investors can access the bonds in the Australian market. The bonds have now begun to trade in the market. The rates of return shown here may have changed.

## Institutions are confident that in-

## Homeowners the only winners

TONY NEGLINE



Important changes to the age pension assets test will come into effect from January 1, 2017.

It's important to understand the impact of these reforms and where there may be further amendments.

They were first revealed by Social Security Minister Scott Morrison in May and contain two elements.

- A redrafting of the asset test thresholds, including increasing the level of compensation for non-homeowners.
- An increase in the taper rate from \$150 to \$3 for every \$1000 of assets above a particular threshold.

From January 2017, single homeowners won't be affected by the assets test if they have assets under \$250,000. No age pension will be payable when their assessable assets exceed \$547,000.

The thresholds applying in 2015-16 are \$205,500 and \$779,000 respectively. Single non-homeowners will lose access to the age pension if their assets exceed \$922,000. The

pension will begin to reduce when their assets exceed \$348,500. After December 2016, these numbers will be \$747,000 and \$450,000 respectively.

From January 2017, couple non-homeowners will see their pension reduce when their assets exceed \$575,000 and they will receive no pension if their assets exceed \$1,023 million.

Couple homeowners after December 2016 won't get the pension if their assets exceed \$823,000 and will face a reduced pension if their assets exceed \$375,000.

A family home is exempt from the assets test; under the 2015-16 rules, homes were assumed to be worth \$143,000. This is the difference between when homeowners and non-homeowners begin to lose the age pension under the assets test. In 2010, the difference was \$131,000.

Under the January 2017 arrangements, the difference between the asset test reductions for homeowners and non-homeowners has been increased to \$200,000.

Where does the government get this number from? According to the ABS, in March 2015, the Australia-wide median house price was \$576,000. The lowest median house price of \$210,000 was for all areas of South Australia outside Adelaide. Unsurprisingly the Sydney metropolitan area had the nation's highest median house price at \$786,000.

Homeowners receive a better deal under Centrelink's asset test than non-homeowners.

In April, the Centre for Independent Studies noted given this large concession to many homeowners, it was hardly a revelation most age pensioners own their home without any mortgage and typically it's the most significant asset they own.

The CIS pointed out when combined with the CGT exemption on the family home, many retirees have reacted rationally to the government's policy settings.

As a result, many retirees find themselves quite well off from an asset perspective — with a valuable family home — but unfortunately surviving on relatively modest incomes.

Ironically the age pension changes that will come into effect from January 2017 may well further encourage retirees to plough money into their home rather than other investments as the home investment won't affect access to the age pension in the same way as other assets do.

There have recently been calls for the family home to be included in age pension tests. It'll be a brave political party that runs with this policy.

In any event, this would only work if we had a reverse mortgage market that is more widely accepted than is now the case.

Tony Negline is author of *The Essential SMSF Guide 2015/16*

## Not all dependants are equal in eyes of tax office

MONICA RULE



Many self-managed superannuation fund trustees are confused about how their superannuation savings will be taxed when they are left to family members upon their death. Put simply, the tax treatment of superannuation death benefits depends on who it is paid to and the form in which it is paid.

I recently met an elderly SMSF trustee who was convinced his adult son, who is not financially dependent on him, would receive all his superannuation savings upon his death totally tax-free. The trustee thought because his adult son is regarded as a dependant under superannuation law, and therefore can receive his death benefit, that he would receive the benefit tax-free. How-

ever, as his son is not a "death benefit dependant" under the income tax law, he will not receive the taxable component of his father's superannuation savings tax-free. Why?

Here's the essential problem: the superannuation law states which individuals can be paid a death benefit upon the death of a SMSF member, while the income tax law states how the death benefit will be taxed, based on who receives it, and whether the benefit is paid as a lump sum or a pension. The two laws differ on the definition of a dependant.

Under the superannuation law, a dependant is a spouse by marriage or a de facto partner (including same-sex partners) and a child of any age. It also includes interdependent relationships. An interdependent relationship is where two people (whether related or not) have a close personal relationship, live together and provide financial or domestic support and personal care. The superannuation law also states that a death benefit pension can only be paid to the deceased member's dependant and in the case of a child

it can only be to a child who is less than 18 years of age, or aged 18 to 24 and financially dependent on the deceased before their death. A child of any age with a disability is also eligible.

On the other hand, under the income tax law, a "death benefit dependant" can be the deceased's spouse by marriage or a de facto partner (including same-sex partners), a child under the age of 18, or a person who is financially dependent on the deceased person before they died. It also includes a person with whom the deceased person had an interdependent relationship with just before their death. Unlike the superannuation law, the definition also includes a former spouse.

A person classified as a dependant under the superannuation law can receive a SMSF member's death benefit in accordance with the SMSF trust deed and/or as per the deceased's binding death benefit nomination. If an SMSF's trust deed allows for payment of a death benefit to a non-dependant, it can only be paid via the deceased's estate through their legal personal rep-

## FLOAT WATCH

## Muscling in on a growing business

### Vitaco Holdings

ASX CODE: VIT  
SHARES ON OFFER:  
110.3 million  
LISTING PRICE: \$2.10  
MARKET  
CAPITALISATION: \$292 million  
LISTING DATE: September 16

TIM MORRIS

Is Australia poised to advance its ranking in the world of professional bodybuilding? After half a century of competition, the nation has yet to be represented on the winner's podium at the annual Mr Olympia competition. The event has been won seven times by the Austrian-born — Arnold Schwarzenegger — while the US and Britain have dominated since the mid-1980s.

Could recent trends in consumption of "sports nutrition" products herald a new era? Australia has the world's highest per capita consumption sports nutrition products — encompassing protein bars, powders and drinks — and hosts the world's second-largest market overall. On a per capita basis, the nation's consumption is 50 per cent greater than second-ranked US and three times higher than Britain. Now an \$800 million market, domestic demand has grown at double-digit average rates during the past five years.

So you might say the nation's "workout ethic" is supporting the coming listing of Vitaco Holdings. Originally from New Zealand, Vitaco's primary focus is the manufacture and marketing of health foods, vitamins and dietary supplements. It operates three manufacturing plants in Auckland, New Zealand, and distributes to over 18,500 grocery and health food stores, pharmacies and gyms across Australia and New Zealand. Vitaco's products are marketed under multiple brands including Healtieries, Nutrilife and Aussie Bodies. Its recent purchase of Musashi — a Melbourne-based nutritional products company — gives it 20 per cent market share in the sports nutrition category.

With Vitaco's listing representing a sell-down by existing shareholders, the incentive for new investors lies in the company's ongoing growth potential. Vitaco is on course to record its third consecutive period of increased revenue and profit. The company has significant capacity to sustain the trend with utilisation of existing manufacturing facilities ranging from 30 per cent to 70 per cent across major product lines. To maintain the trend, the Vitaco is focused on product development and export markets, launching over 200 new products in FY15.

Tim Morris is an analyst at wise-owl.com.

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