

DIVIDEND
DETECTIVE

Hedge
fund has
numbers
to reward

ASX code: HFA
Share price: \$2.16
Industry: Funds management
Forecast FY2016
dividend: 0.14c, unfranked

JONATHAN WILSON

A declining share price over the past six months has seen US-based and ASX-listed fund manager HFA shine on dividend screens. This follows a strong two years in which the previously “under the radar” stock more than tripled in value from 70c to \$3.

HFA is the parent of Light House Investment Partners, a US global absolute return hedge fund manager. It is interesting to the income-oriented investor as it generates consistent operating cashflows from management fees on sticky assets under management and advice (AUMA).

Operating cashflows translate to strong free cashflows due to the capital-light funds management business structure.

Dividends are twice covered by operating cashflows, while the 8.5 per cent yield — equivalent to a 6 per cent fully franked yield — looks sustainable.

Despite navigating the financial crisis relatively well, HFA’s share price collapsed during the depths of the crisis. This was due to capital flight across the industry, while HFA’s substantially increased debt for its ill-timed acquisition of Light House scared investors during this time.

HFA completed the Light House acquisition in 2008 for a cash consideration of \$US350m and (\$460m) 135 million HFA shares. The cash component was funded by \$258m of new equity and \$US130m of debt. Although Light House initially more than doubled AUMA, within 12 months the company still wrote down \$600m of intangibles, which was mostly goodwill related to the acquisition. HFA reported a \$570m loss in 2009 and the shares traded below 10c for most of the year.

But Light House’s steady returns at low volatility attracted solid inflows in the following years, and AUMA recovered from a low of \$US5 billion in 2008 to \$US6.6bn now.

HFA remained highly cash generative through the GFC and increased operating cash flows from \$US12m in 2012 to more than \$US30m at present on the higher AUMA. The company has gradually paid down debt and its balance sheet is now clean with \$US15m net cash.

HFA is well positioned with balance sheet strength, AUMA stability, and strong cash generation. While fee compression and low-cost product replication are risks, HFA’s long-short approach lends itself well to absolute returns. The shares (at about \$2.15) are trading slightly below our \$2.30 valuation.

Jonathan Wilson is an analyst at Clime Asset Management.

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Backlash felt at poll over
superannuation changes



Assistant Treasurer Kelly O'Dwyer, centre, whose federal seat of Higgins is in inner-east Melbourne, felt the superannuation backlash

Mooted changes to
retirement savings
rules left voters cold

MICHAEL RODDAN



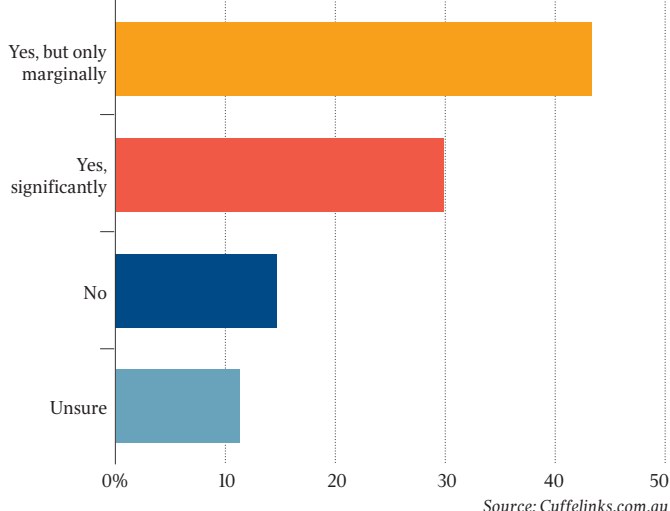
As Malcolm Turnbull stares down internal party dissent over the government’s controversial superannuation reforms in the wake of a poor election showing, one poll appears to confirm the arguments of backbench agitators that the planned tweaks to the nation’s nest eggs drove voters away from the Coalition.

A post-election survey of more than 500 readers of Cufflinks, an investment newsletter founded by former Colonial First State chief Chris Cuffe and banker Graham Hand shows the government’s planned super shake-up influenced the voting intentions of more than 50 per cent of respondents.

Moreover, the poll — released exclusively to *The Australian* — suggests investors now expect the new government will make important changes to new superannuation policies released on budget night earlier this year.

The poll comes as Liberal Party headquarters sifts through the wreckage of its poor election showing, with big swings recorded in blue ribbon seats such as

Do you believe the proposed superannuation
changes affected the overall outcome?



Assistant Treasurer Kelly O'Dwyer's Higgins, where superannuation policy is believed to have swayed well-to-do voters.

Despite Treasurer Scott Morrison's insistence there will be no revision to the changes to super laws unveiled in this year's federal budget, there are rumblings that jittery backbench MPs will argue for the grandfathering of the rules, which were taken to the election despite never gaining the endorsement of the party-room.

Mr Hand, a former deputy treasurer at the State Bank of NSW and Colonial First State executive, said the survey and the responses he received showed that many long-time Liberal voters took action against the government by lodging a protest vote in the senate.

“There’s evidence that a lot of Liberal voters or Coalition voters couldn’t quite bring themselves to leave the party in the lower house, but felt the need to register some protest,” Mr Hand told *The Australian*.

“Which may be a reason why so many independents did so well,” he said.

Mr Turnbull, who on Sunday claimed victory for the previous weekend’s election, appears to be on track for a slender majority government.

However, he lost more than a dozen seats in the lower house and has garnered criticism from his backbench after presiding over an influx of rogue independents in the Senate.

Many Coalition MPs are calling for a review of the budget’s proposals, which brought in a

\$500,000 lifetime cap for non-concessional super contributions backdated to 2007, along with a proposed \$1.6 million limit on tax-free pension funds.

Among the key findings in the Cufflinks survey were:

- About two-thirds of readers said they expected the election results to drive changes to the existing proposals, due in part to the backlash within the government itself and because of the need to win support from the Senate.

- The majority of respondents believe the superannuation changes affected the overall outcome of the election

- About 35 per cent of respondents said their vote was swayed by the imposition of the \$500,000 non-concessional cap, the backdating of the cap, and the \$1.6m limit.

- Roughly 40 per cent disagreed with the overall package of budgetary measures.

- One third of readers said the changes did not affect their voting intention.

However, as ratings agencies warn on the need for budget repair, the government also faces a Senate impasse to secure the many billions of dollars needed in budget savings over the forward estimates. The superannuation reforms aimed to save \$5.6 billion over the forward estimates.

Mr Hand said that while the poll was likely to reflect the views of those most passionate about the subject, it was nevertheless a good-sized sample of voters, many of whom registered strong and insightful information on their voting behaviour.

“I was an LNP member who found a reason not to assist on election day for the first time in 30 years,” one reader said.

In a similar vein, another respondent noted: “I’ve voted Liberal for over 42 years — but not this time, and never again if this ill-considered legislation gets through.”

Some respondents registered their displeasure with both major parties. About 30 per cent of readers said Labor was “as bad or worse” because the party wished to restrict tax-free earnings to \$75,000.

Another 21 per cent said the government was worse because of caps on contributions and tax-free pensions.

But 36 per cent said both party’s proposals were “unacceptable”.

“I have previously been a liberal supporter. However for this election I spent considerable time finding out six parties which I could vote for that favoured leaving superannuation law alone,” one reader said. “Labor and Liberal were not on the list.”

“The government will feel some pressure to make some changes on some of the rules,” Mr Hand said.

“If you really had to say which one are they most likely to address, it’s the backdating of the non-concessional contributions back to 2007 — that is the one that most people would say is clearly retrospective.”

“(Tasmanian) senator Eric Abetz has been very vocal about when he’s gone around the country and said lots of people are saying this to him,” Mr Hand said.

Three strategies to boost
your retirement coffers

MONICA RULE



Sadly we only become aware of some strategies that can help you save more for your retirement and pay less tax once the government announces its intention to abolish them.

There is intense speculation the new government will be forced to reconsider at least some aspects of the superannuation policy changes that were outlined by Scott Morrison on budget night May 3.

A survey by the Cufflinks group shows voters feared changes to super, and there is clearly a lack of stability in the sector at this time. Yet regardless of the changes announced to budget, you can still take advantage of some of the more helpful superannuation strategies.

Provided you have a reasonable understanding of the income tax and superannuation laws, you can make your self-managed superannuation fund work for you by implementing strategies that will take into account either an existing law or a proposed change to the law.

Here are three standout SMSF strategies.

Re-contribution

This strategy is where a member accesses their superannuation savings from their SMSF, once they have met a condition of release, and then re-contributes some or all the taxable component of the benefit back into their SMSF as non-concessional contributions. This reduces the taxable component and increases the tax-free component of their superannuation savings, which reduces the tax payable if they access their superannuation savings while under the age of 60. It also reduces the tax payable, by their non-dependent beneficiaries, when their superannuation savings are passed on to their loved ones upon their death.

Under the current law, members, aged 65 to 74, must satisfy the part-time work test to be able to re-contribute money back into their SMSF. Under the proposed budget changes, the government will remove the work test from July 1, next year. This means members aged 65 to 74 will be able to re-contribute money back into their SMSF regardless of their work status.

The proposed budget changes — if they are passed — are set to make the re-contribution strategy less feasible. Members will not be able to use this strategy if they have already made non-concessional contributions of up to \$500,000. This is the proposed “lifetime limit”, which has been backdated to non-concessional contributions made since July 1, 2007. Nonetheless, this strategy is still worth considering.

Contribution reserve

This strategy involves making concessional contributions of twice the member’s concessional contributions cap by making one part of the contribution during the year and making the second

part of the contribution in June. This allows the member to claim a tax deduction equal to the total concessional contributions made in one financial year and not exceed the concessional contributions cap. This is because the concessional contributions made in June is allocated in July and therefore, is counted towards the member’s concessional contributions cap in the following financial year.

Under the proposed changes from July 1 next year the concessional (pre-tax) contributions cap will be reduced to \$25,000 for everyone. But the government also proposes to allow members with superannuation balances of less than \$500,000 to carry forward any unused concessional contribution caps, accumulated after July 1 next year, on a rolling basis for five consecutive years. This means if you have not made any concessional contributions over a number of years, you can contribute more as well as claim a larger tax deduction over two financial years.

Another good thing about the proposed changes is that, from July 1 next year all members under the age of 75 will be able to claim a tax deduction on personal super contributions regardless of their work status.

Property transfer

You can transfer a property you own that has been used wholly and exclusively in a business into your SMSF either as an in-specie

The proposed budget changes — if they are passed — are set to make the re-contribution strategy less feasible

contribution of up to your contributions caps or via a direct sale. It is even better, if you transfer your active business property if you are a small business taxpayer where your net assets do not exceed \$6 million or your aggregated turnover is less than \$2m. If you satisfy the criteria as a small business entity, then you can either reduce or eliminate paying capital gains tax on the transfer of your business property into your SMSF.

Once the property is transferred into your SMSF, you can also lease it back to your business. This is an effective way to get more money into your SMSF in excess of your contributions caps. There were no changes announced in this year’s budget on the small business capital gains tax exemption or business property transfers, so the strategy is worth considering while you still can.

Some of the government’s proposed super changes mean older strategies may need to be re-examined, but they may also become accessible to those who were previously denied their benefits. Understanding what you can do with your super will help grow your retirement savings and ensure you don’t miss out on opportunities to minimise your tax.

Monica Rule is the author of *The Self Managed Super Handbook — Superannuation Law for SMSFs in plain English*.

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PERFORMANCE THAT TURNS HEADS AND HEARTS
THIRD LINK GROWTH FUND an Australian share
fund where your fees are donated to charity

KEY FEATURES

- ✓ Managed by industry veteran, **Chris Cuffe**
- ✓ A fund-of-funds, meaning Third Link Growth Fund is invested with other investment managers, including Aberdeen Asset Management, Bannellong Australian Equity Partners, Colonial First State, Cooper Investors, Goldman Sachs Asset Management, Greencape Capital, Harness Asset Management, JBWere Wealth Management, Lazard Asset Management, Montgomery Investment Management, Paradise Investment Management, Ophir Asset Management and Pengana Capital.
- ✓ The fees you pay (net of expenses) are donated to a variety of children’s charities (showcased on the website). **Over \$4.5 million donated to date.**
- ✓ Minimum you can invest is **\$20,000**

FUND PERFORMANCE as at the end of JUNE 2016

(fund performance percentage returns are annualised and are after fees with the assumption that distributions were reinvested)

	Three Months	Six Months	One Year	Three Years	Five Years
Third Link Growth Fund	+4.5%	+3.3%	+14.2%	+14.3%pa	+12.6%pa
S&P/ASX 300 Accumulation Index	+4.0%	+1.2%	+0.9%	+7.7%pa	+7.2%pa
Performance relative to benchmark	+0.5%	+2.1%	+13.3%	+6.6%pa	N/A*

*A comparison of the Fund return to the S&P/ASX 300 Accumulation index for the 5 year period has not been included as until 12 January 2012 the Fund had a different benchmark.
All investments carry risks and returns may be volatile. Past performance is not indicative of future performance. Full performance information is available from the Fund’s website, www.thirdlink.com.au

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