

Henderson has natural flair for returns

ANDREW MAIN



What's a good way forward for a resource fund when commodity prices are looking bleak all over?

David Whitten, the veteran local manager who in 2012 founded what's now the Henderson Global Natural Resources Fund, has a simple answer: in his world the phrase "natural resources" includes agriculture, and his fund is invested 37 or 38 per cent in agribusiness, 28 per cent in energy and 33 per cent in mining.

Which means that while the fund is down 7.9 per cent in the last 12 months, the annual average return since inception is a much more respectable 8.0 per cent compared with the relevant benchmark index, the S&P Global Natural Resources Accumulation Index, which has averaged 5.7 per cent over the same period. And much better, of course, than almost any conventional resource fund.

"It's worth noting that we're not hugging that index; indeed 75 per cent of our investments depart from that benchmark," he says.

Whitten said the Henderson Global Natural Resource Fund, which was called the 90 West fund when he founded it, was \$36 million or \$37m.

"That commenced a bit over three years ago and is our flagship



Local CEO Rob Adams and David Whitten of Henderson Global Investors. The fund's average return is 8pc

retail product" out of a total of \$280m under management, he said, which includes one large mandate from a big unnamed manager, and a SICAV, similar to a UCITS structure, run out of Luxembourg on behalf of British-based Henderson Global.

A SICAV, for the pedants, is a "societe d'investissement a capital variable" or a variable capital investment company, usually classified as an open-ended collective investment scheme.

"It takes a while to get going but

we're on platforms and have been rated by various groups," says Whitten.

On June 1 this year Henderson fully took over the 90 West fund that he started, having previously been the major shareholder in the business, Whitten said.

"That's working out wonderfully and we'll have full integration by the end of this year."

He said that in July he added another team member, Kiwi resources analyst Tim Gerrard.

"He's in Toronto today talking

agriculture ... he's broadening beyond mining."

Whitten says that not only is the fund a big holder of global agribusiness companies but in the mining and energy markets "we aren't just investing in the traditional upstream businesses but going into the mid market in transport and distribution".

A bit like the merchants who sold shovels to the gold prospectors, he sees nothing bizarre about buying into pipelines and other business whose revenue streams

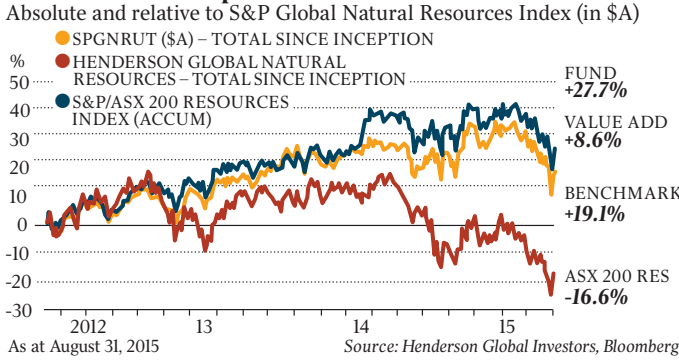
are less dependent than upstream producers on commodity prices.

"The low gas price has been fantastic in North America for the pipeline companies."

He's not scared of lower commodity prices either, about which he remains very cautious, noting that "that's what we need, for the higher-cost producers of commodities to be in a bit of strife, for that reason."

He says there's a big negative coming shortly in the US, in that oil companies are allowed to value

Returns since inception



their reserves at last year's prices, "and I can guarantee that oil's not now worth \$90 a barrel."

Or put another way, next year's reports from US shale extractors will have to be a lot more honest about the value of their reserves.

That said, he adds that improvements in drilling technology mean that some companies will be making more money with the oil price at current levels than they were when it was \$90.

But where he gets seriously animated is in discussing the massive potential of the agribusiness sector, most particularly that recent scientific discoveries about genome separation and gene splicing should revolutionise crop yields and reduce weed spraying.

"We're not talking GM here: we're talking major advances in crop production and at the same time, northern hemisphere agribusiness has discovered the huge benefits it can gain from the different seasons in the southern hemisphere."

He is one of many who don't see much immediate upside in

Australian agricultural organisations because of their lack of scale and lack of technology, although his fund has positions in Graincorp and its likely US-based bidder, Archer Daniels Midland, on the basis that he very much likes the quality of the ADM management.

And he says there's been a revolution in US eating habits that simply hasn't been recognised outside that country.

"It used to be they provided doughnuts for morning tea, and now it's carrot sticks."

Maybe that doesn't sound the death knell for fast food, but it's a strong trend, he says.

Aside from his enthusiasm for ag stocks, there's another huge positive in including such stocks in a natural resources fund: it reduces volatility.

"Since inception, the fund's volatility has been 10.3 per cent, just below its benchmark index's volatility of 10.6 per cent."

"By comparison, a traditional mining investment fund would have almost twice as much volatility at around 20 per cent."

FLOAT WATCH

New gold venture faces up to risks

Soon Mining

ASX CODE: SMG
SHARES ON OFFER: 25 million
LISTING PRICE: 20c
MARKET CAPITALISATION: \$30 million
LISTING DATE: October 16

TIM MORRIS

Positioned to notch up its third consecutive year of decline, the US dollar price of gold is hovering more than 40 per cent below its 2011 high. The contraction has had a cataclysmic impact on the shares of goldmining companies, with popular indices such as the "HUI" more than 80 per cent lighter than their bull market peak. So how has the industry responded?

Despite the price contractions, annual world goldmine output has continued to rise. After posting a sixth consecutive increase during 2014, output remains 20 per cent higher than pre-financial crisis levels when the prevailing gold price was \$US900 an ounce. Hence, if the cure to gold's current bear market is a supply response, the mining collective faces further work ahead. However, with equity prices in the sector already having suffered such massive declines, could the coming listing of Soon Mining provide a contrarian opportunity?

The minerals exploration company is principally focused on Ghana, Africa's second-largest gold-producing nation. Its principal asset is the Kwahu Gold Project, which covers 83sq km, incorporating a mining licence and certified mineral resources. The mining licence has a tenure extending until 2027, while the resource consists of an alluvial gold deposit in the order of 150,000 ounces, classified as indicated.

Proceeds from Soon Mining's float are scheduled to facilitate development of a small-scale mining and processing operation incorporating the existing resource. The planned 10-year operation has potential to generate in the order of 10,000 ounces per annum, with more scalable exploration targets within the licence likely to attract surplus cashflow.

Principal risks surround the small-scale nature of Soon Mining's development plan and present state of gold equities. Valuations in the industry are depressed and economics associated with development of the Kwahu alluvial deposit is uncertain.

The long-dated nature of the company's mining concession and presence of mineralisation are attractive qualities. However, execution risks associated with small-scale mining developments may challenge interest for the initial public offer.

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

Salary sacrifice for retirement

TONY NEGLINE



How you can save for retirement tax effectively without it impacting on your current income?

If you're a wage and salary earner then the answer is to consider using salary sacrifice.

This involves you and your employer agreeing that some of your remuneration will be sent to your super fund by the employer and the remainder will be paid to you as salary.

Let's look at an example. Suppose this financial year you'll be paid \$100,000 in salary. Over the course of the year you would pay \$26,947 in income tax and Medicare Levy. Your after tax income is \$73,053.

There are some important assumptions in these numbers — you're not eligible for any tax offsets such as the Family Tax or Childcare Benefits and you also have private health insurance which means you don't need to pay the Medicare levy surcharge. Also, you don't have to pay any higher education or trade support loan repayments. And finally you don't earn any other income such as interest from bank deposits.

Let's assume that you salary sacrifice \$10,000 into super which means your salary drops to \$90,000. After paying income tax

and the Medicare levy you'll receive \$66,953 in income which is \$6100 lower than if you took all your remuneration as salary.

Salary-sacrifice contributions are deemed to be employer super contributions and are taxed at 15 per cent as opposed to your marginal rate which means these super contributions will have \$1500 of tax deducted. Total tax paid is \$24,547, which is \$2400 lower than previously.

Some people ask if you can structure your salary-sacrifice contributions so that your after-tax income remains at the pre-salary sacrifice level.

The correct answer for someone on \$100,000 is that, every dollar of salary sacrifice super contributions will give them a lower overall tax outcome, and also lower after tax income.

Take our \$10,000 salary sacrifice example above. Under that scenario we will receive 8 per cent less income (\$6100 as already mentioned) but our total tax bill has fallen by 9 per cent.

These might seem like a small difference but if you're struggling to work out how to save for retirement when money is tight then you have to use the various strands of the tax system to your advantage.

Because of our progressive personal tax scales different results arise for other income levels.

Now before rushing off to enter into a salary sacrifice arrangement, there are some points that must also be considered.

First, does your employer allow salary-sacrifice contributions? If yes, will they pay their compulsory employer contribu-

tions on your total remuneration or your revised salary amount? What remuneration will be used when working out your holiday pay loadings, overtime and other allowances? Do you have a binding agreement with your employer as to when these salary-sacrifice contributions will be made?

Second, the Family Tax Benefit and Childcare Rebate and Benefit — these are subject to an income test but are effectively tax cuts. It may be that after you receive all these benefits you actually pay an average tax rate on your salary of less than 15 per cent, that is, the tax rate on employer super contributions. If you receive any of these benefits you should work out your actual net tax position first before deciding if salary-sacrifice contributions actually work for you.

Third, don't forget about the concessional contribution caps. If you were aged at least 49 on June 30, 2015, then the maximum concessional contributions that can be made this financial year is \$35,000. For everyone else the concessional contribution cap this financial year is \$30,000. Ordinarily you can make concessional contributions above this threshold but those excess contributions will be taxed at your marginal tax rate and possibly other penalties. And finally, you can only put in place a salary-sacrifice agreement for income that you will earn, not income that you have already earned.

Tony Negline is author of *The Essential SMSF Guide 2015-16* published by Thomson Reuters.

Why SMSFs should get their SuperStream right

MONICA RULE



If your Self-Managed Superannuation Fund receives superannuation contributions from non-related employers, your SMSF needs to receive these contributions in the required electronic format. If you aren't sure if your SMSF is "SuperStream" compliant, you need to read on.

Nathan Burgess, ATO director SMSF Income Tax & Regulatory Risks, recently told me that of the 500,000 SMSFs in Australia, some 300,000 need to be SuperStream compliant. Mr Burgess said about 5 per cent of SMSFs have not taken the correct steps necessary to comply with the SuperStream requirements.

Under the new SuperStream system, a non-related employer

must send superannuation contributions to an SMSF electronically, using an electronic service address (ESA). This is an internet address created to enable SuperStream messages to be received securely and it is different to an email address.

However, in order for this to happen, an SMSF first needs to be registered with a messaging provider to obtain an ESA. An SMSF cannot simply use an ESA that belongs to another SMSF unless the SMSF is also registered with this same messaging provider.

Once an SMSF is registered with a messaging provider, the messaging provider will link the SMSF to an ESA. Until this is done the employer cannot start sending SuperStream contributions electronically to the SMSF via this ESA. Mr Burgess stressed that the ESA needs to be "active". "If it is not active, the superannuation contributions submitted by the employer will be rejected. The employer will also receive an error message. It is important that SMSFs check with the service provider that provided the ESA to en-

sure their ESA is active and is linked to their SMSF," said Burgess.

All SMSFs, even those that are a related party to an employer can benefit from SuperStream. On highlighting the advantages of SuperStream, Mr Burgess said, "The SuperStream system ensures that employer contributions are paid in a consistent, timely and efficient manner to members' accounts. It provides a reliable flow of payments and information on contributions which SMSFs can use for their accounting and tax obligations. It also results in fewer data and payment errors due to the better integration of employers' payroll systems, as it allows employers to use a single distribution channel when dealing with multiple SMSFs."

SMSFs that receive contributions from non-related employers should be ready for SuperStream now. Employers with more than 20 employees must be able to send SuperStream contributions to all super funds, including SMSFs, by October 31 2015. Small employers have until June 30 2016 to

implement the SuperStream system though many of them have already commenced sending SuperStream contributions.

Messaging providers are now offering free or low cost access to an ESA meaning all SMSFs can obtain the benefit of electronic processing. Details of messaging providers are available on the tax office's website. After registering your SMSF with a messaging provider they will provide an ESA, receive employer contribution messages sent to your SMSF and send employer contributions messages to SMSFs.

SMSF trustees must also ensure that their employers receive the SMSF's Australian Business Number, bank account details and ESA. If employers do not receive this mandatory information, they may direct employees' superannuation contributions to their default superannuation fund instead of to the employees' SMSFs.

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