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Australian
Shareholders'
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BALANCING PROFITS AND STAKEHOLDER NEEDS: QUESTIONS FOR RETAIL INVESTORS

By Rachel Waterhouse, CEO, Australian Shareholders' Association



A large cohort of healthy, investible companies, and their profits, is the foundation of the Australian economy, with companies of all shapes and sizes contributing a whopping \$1.8 trillion to Aussie GDP.

In the same way a house needs walls and rooms on the foundation, businesses need more than profits to be successful. They need to consider their impacts on all their different stakeholder groups to generate lasting success.

The idea of balancing profits with other priorities is a perennial focus of markets. It's important to understand how this interplay operates when assessing potential investments.

Shareholder primacy, and therefore profits, is enshrined in law. Section 181 of the Corporations Act 2001 requires directors to act in the best interests of the company. Courts have historically interpreted this duty as prioritising shareholder interests, particularly in terms of maximising profits. The half yearly reporting cycle also encourages companies and shareholders to have a short-term profit focus.

In addition to profits, it pays for companies to take into account a range of stakeholder needs – including customers, employees, communities, suppliers and regulators – to generate sustainable financial performance and investment returns.

This is the subject of the Australian Shareholders' Association's new paper, *Getting the right balance between profits and stakeholder needs*.

Profits have to be a priority. They mean companies can hire staff, pay suppliers on fair terms and pay dividends. They allow businesses to reinvest in their operations to produce future returns, as well as attract investors. But having too much focus on the financial aspects of doing business can adversely impact company performance.

This can be as simple as companies charging the highest possible amount for their goods and services, but not taking into account cost of living pressures on customers, pricing themselves out of the market and losing market share.

With this in mind, responsible boards constantly balance a range of aims in addition to making a profit. This includes things like reputation management, staff engagement and productivity, compliance and risk management.

In fact, long-term evidence suggests investing in a responsible way, which includes taking into account the company's impact on its stakeholders, generates outperformance. Investment products certified by the Responsible Investment Association of Australasia have returned 13.2 per cent over the past decade, versus a 9.19 per cent return for mainstream Australian share funds.

When you're assessing a company as a retail investor, it pays to look beyond financial information to form a true picture of a company's prospects. Here are some questions to consider when you're looking into a company's ability to produce a profit and also look after its broader ecosystem.

- How is it governed and managed?
- Does the board and management think about the long-term implications of their business decisions, not just short-term financial benefits?
- How does it deal with stakeholders including shareholders as well as customers, staff, suppliers and its community?
- Are its actions fair and ethical?
- Are its business practices sustainable?
- Does it have a good compliance record?
- What's the company's reputation in the community?

We expect the companies we monitor to produce a profit and their stakeholders' needs. It's the only way companies can engage fairly in all aspects of their operations and treat their broad range of stakeholders with sensitivity and respect.

I want to acknowledge my colleague, Fiona Balzer, our Head of Policy and Advocacy, for her fantastic work in developing this paper, as well as the members of ASA's Policy Committee and Company Monitoring Committee for their review and input.

You can download your copy by following the below web address <https://www.australianshareholders.com.au/wp-content/uploads/2025/03/Getting-the-right-balance-between-profits-and-stakeholder-needs-position-statement...pdf>

ASA Investor Conference 2025: Insights to Strengthen Your Portfolio

Join us at the ASA Investor Conference 2025 to gain insights from leading experts in economics, investing, corporate leadership, and governance. The conference will explore key forces shaping tomorrow's investment landscape, including AI, geopolitical influences, market volatility, and evolving regulations, while also covering strategies for building wealth, estate planning, and constructing a well-diversified portfolio. Discussions will also focus on identifying and investing in quality shares to navigate uncertain markets with confidence.

As a reminder, ASA company monitors, member meeting convenors, and Council members can access the volunteer rate in recognition of their contribution.

Vale Robert (Bob) Ritchie

We are deeply saddened by the passing of Bob Ritchie, our South Australia-based Company Monitoring Committee (CMC) Chair and SA Committee member, this week. A dedicated and highly respected member of our community, Bob played a key role in overseeing company monitoring in South Australia. His commitment to ASA's purpose, despite health challenges, was unwavering. A valued mentor, colleague, and friend to many, he leaves a lasting impact and will be greatly missed. Our thoughts are with his family. 🕊

CELEBRATING WOMEN IN FINANCE WITH ANNA WONG: A TRAILBLAZER IN ECONOMICS

By Caity Somers, Marketing and Education Manager, Australian Shareholders' Association



In celebration of International Women's Day, we're proud to spotlight Anna Wong, Chief US Economist for Bloomberg, a key figure in global forecasting and analysis. Her impressive career includes roles at influential institutions such as the Federal Reserve Board, the White House Council of Economic Advisors, and the US Treasury, where her expertise has played a pivotal role in shaping global policy. Recognized by Business Insider in 2023 as one of the "Oracles of Wall Street," Anna's work continues to have a lasting impact on the field.

Her journey began with a deep curiosity about global economic events, which led her to earn a PhD in Economics from the University of Chicago. Today, she remains an influential voice in economic thought, known for her bold calls on interest rates and her innovative approach to market research.

In this feature, Anna reflects on her remarkable career, offering insights into leadership, the evolving role of women in economics, and the strategies that have helped her thrive in a traditionally male-dominated industry.

Interview with Anna Wong

1. How did you get started in your career?

In college, I was fascinated by two big macro events of that time: Argentina's financial crisis and China joining the WTO. I took courses on those topics and did well in them. When I graduated, one of those professors put me in touch with a senior fellow at a think tank on international economics in Washington DC (then Institute for International Economics, now Peterson Institute), and I quickly got a job to work for a former Director for the International Finance Division at the Federal Reserve Board (Ted Truman). That job, and working for Ted, was very formative in my career path down the line.

2. What have been your biggest achievements?

I enjoy writing, be it policy and academic papers, or market research. From my own perspective, the bar for success of any piece of writing is that it generates a high volume of discussion. That means the writing was well read and made people think. In my career, I have written a few pieces that meet that bar.

From the perspective of Wall Street, my biggest achievement is probably making a correct and out-of-consensus call back in the summer of 2022 that the Fed would have to raise rates to 5%. At the time, the consensus was thinking the terminal rate would be around 3%. To get that call right, I also forecasted that inflation would elevate - yes, I wasn't on the "Transitory" team from the get-go.

Wall Street places value on out-of-consensus and correct calls, especially when it comes to matters like what the Fed will do next. But to get Fed calls right, one has to get inflation and employment calls right too.

3. Where do you get your research ideas from?

I read a lot, and I observe what happens around me. When I do that, I ask: what's the most interesting question here amidst all these noisy headlines? We are inundated by news and information every day, but it's important to cut through the noise and figure out what question will be most important to answer for the markets.

I have found that being a mother and effectively the purchasing manager of a household does influence the way I forecast and decide on what to write. The accidental byproduct of all those extra responsibilities is that you start to develop some sensitivity toward the pulses of the economy, for example, grocery prices, toys and clothes prices, hotel prices, and supply and demand conditions in the job market (e.g., nannies, yard hands, construction).

4. What are some of the challenges you've faced in this industry, and how have your experiences shaped your perspective?

I have always been an oblivious person, and I haven't personally felt like being a female made a difference in my education (In my PhD program, I was one of only four females in a class of about 26 people) or for most of my career, where I have had several very supportive male mentors.

But I will say that as I became a manager, I have increasingly noticed there is a behavioral difference that seems to correlate with gender. That is, females tend to take longer to become confident about their work - even though the quality of their work is great and on par, if not better. They are also less likely to say no to a difficult task. As a manager, I am increasingly mindful of this.

5. Who or what has been the most influential in shaping your approach to economics and leadership?

It's important to carefully choose who you work for, especially in the early part of one's career. For me, I was lucky enough that I worked for economists I greatly admire and learned a lot from. They influenced each of the subsequent steps of my career. I would just name them (I hope they don't mind): Ted Truman, Brad Setser, Mark Sobel, and Robert Dohner. Each of these individuals fanned and encouraged my intellectual curiosity and gave me space to pursue offbeat research that hadn't seemed important at the time - a trait I value the most and encourage in my team.

Economists whom I learned a lot from in how to see the world through the lens of economics - just listening to, though not working closely with - include Fred Bergsten, Michael Mussa, and Steve Kamin.

Later in life, my own experience as an economist became more important. None more formative than the year when I was seconded to the White House Council of Economic Advisers in 2019-2020, during the tail end of the trade war and then, the coronavirus outbreak. I learned that many conventional wisdoms we take as truth in the economic profession could just be turned upside down overnight. Also, I had to (and did) forecast the double-digit decline of GDP and double-digit increase in unemployment. So much happened in that one year that it will take a book to explain what I saw. To summarize, that year taught me it's okay to throw conventional wisdom out the window.

6. In your experience, how can organisations better support women in leadership roles, especially in traditionally male-dominated industries like finance and economics?

To my earlier point, I think there's an intrinsic tendency for women to present themselves less confidently. In an industry like Wall Street, where risk-taking is valued, the appearance of confidence is an asset. If one is mindful of this differential tendency, the manager may be better able to perceive the substance of the worker.

7. What do you think is the most pressing economic issue today, and how does it disproportionately affect women?

I think declining population growth across developed countries is a problem. The inhibitive childcare costs, as well as career demands for those where money is not of concern, are causing many to delay or forgo having children. Can a woman have children and a career too? Too often, this becomes a hard tradeoff. From a macro perspective, having a lower cost and safety net for childcare could potentially boost fertility rates while increasing labor supply.

8. As a role model for many, what advice would you give to young women pursuing a career in economics or finance?

Work for someone you admire and can learn a lot from, especially early in your career. Project confidence when you've done the work. Say yes to answering hard questions when other people would skip over them.

On International Women's Day, we celebrate the remarkable achievements of women like Anna Wong, whose influence is shaping the future of economics, finance, and leadership. Her story serves as a powerful reminder to continue fostering a world where women's voices are not only heard but valued and empowered to lead with confidence. **E**

National Shareholder Presentations

Register your attendance today.

<i>Canberra</i> Hotel Realm	Tuesday 1 April 2025
<i>Sydney</i> The Fullerton Hotel	Wednesday 2 April 2025
<i>Brisbane</i> Sofitel Brisbane Central	Thursday 3 April 2025
<i>Hobart</i> Crowne Plaza Hobart	Monday 7 April 2025
<i>Melbourne</i> Sofitel Melbourne on Collins	Tuesday 8 April 2025
<i>Adelaide</i> Hilton Adelaide	Wednesday 9 April 2025
<i>Perth</i> The Ritz Carlton	Thursday 10 April 2025

Agenda

9:30am

Registration + tea and coffee available on arrival

10:00am

Hear from Geoff Wilson AO and the Wilson Asset Management team

12:00pm

Future Generation presentation

12:30pm

Lunch with the team

1:15pm

Panel with Geoff Wilson AO, The Australian Financial Review, and Future Generation fund managers. (Sydney and Melbourne only)

Register now



DON'T TRUST ANYONE UNDER 30!



By Chris Leithner, Director of Leithner and Company Ltd and ASA Education Partner

The Investment Generation Gap

Jack Weinberg is an American environmentalist and former New Left activist who's best known as a leader of the Free Speech Movement (FSM) at the University of California, Berkeley, in the 1960s. He's been acknowledged as the originator of the catchcry "don't trust anyone over 30 (years of age)." Often misattributed to The Beatles and others, Weinberg coined this phrase – which encapsulated the "youth counterculture" of that decade – during an interview with *The San Francisco Chronicle* in November 1964.

The experience of young people during the 1960s, particularly the well-to-do and above all university students, is an extreme example of a general phenomenon: the attitudes and outlook we develop as young adults remain with us the rest of our lives.

"All of us," writes Morgan Housel in *The Psychology of Money: Timeless Lessons on Wealth, Greed, and Happiness* (Harriman House, 2020), "go through life anchored to a set of views... people from different generations ... learn very different lessons." Economists typically assume that an individual's attitudes towards investment risk and reward remain constant throughout life. They also suppose that formative and major life experiences don't alter these attitudes. In reality, however, these experiences – especially those that occur during adolescence and early adulthood – fundamentally and permanently affect an individual's attitudes towards investment risk and reward.

Ulrike Malmendier and Stefan Nagel ("Depression Babies: Do Macroeconomic Experiences Affect Risk-Taking?" NBER Working Papers 14813, National Bureau of Economic Research, 2009), elaborate: "differences in individuals' experiences of macro-economic shocks affect long-term risk attitudes." Three of their findings are most pertinent:

1. If during your late adolescence and early adulthood stocks generated high returns, then later in life your appetite for risk will tend to be relatively strong – and you'll invest more in stocks and less in bonds.
2. Conversely, if stocks generated weak returns or losses when you were a young adult, then your tolerance of risk will be relatively low and you'll eventually invest less in stocks.
3. If you entered adulthood when inflation was low (high), and bonds' returns were high (low), then later in life you'll tend to invest relatively more (less) in bonds.

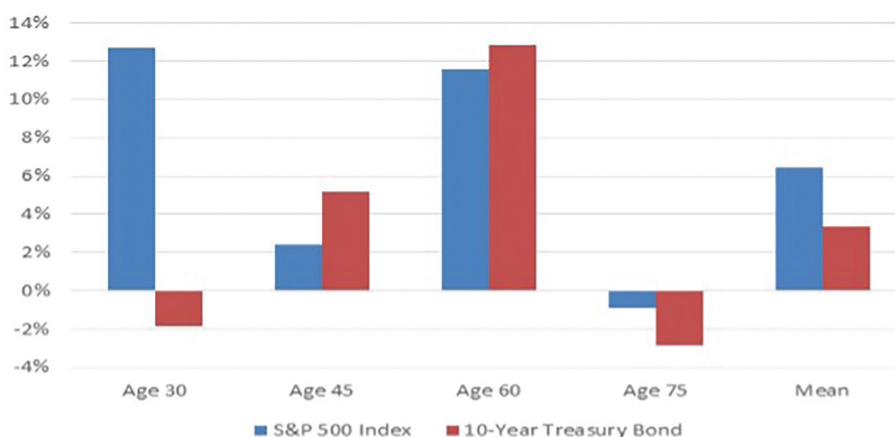
If, for example, you're now 75 years of age then you were 18 in 1967 – and, assuming that late adolescence and early adulthood occurs at 18–30 years of age, as an investor you'll weight particularly heavily your experiences during the years 1967–1979. If you're now 60, you were 18 in 1982, and your experiences in 1982–1994 were formative, and so on if you're now 45 and 30.

Generally as a person and specifically as an investor, crucial aspects of your outlook depend upon your experiences during adolescence and early adulthood. "Not intelligence or education," Housel adds, "just the dumb luck of when you were born."

Results

Figure 1 summarises the results of my analysis (a detailed description, which also includes the four cohorts' experiences of consumer price inflation and rates of interest, will appear at Livewiremarkets.com later this month). Over the 12 years between the ages of 18 and 30, the four cohorts receive average long-term returns (expressed as compound annual growth rates (CAGRs)) of 6.5% per year (S&P 500) and 3.3% per year (ten-year Treasury bonds). These returns aren't too far from these assets' average 10-year and 20-year CAGRs over the past century.

Figure 1: CAGRs per \$1 Invested, S&P 500 and Ten-Year U.S. Treasuries, Four Age Cohorts, 1967-2024



Yet the cohorts received greatly different returns – and, if Housel, Malmendier and Nagel are correct, draw vastly different conclusions from the experiences during their formative years:

If You're Now 30 ...

Your personal experience is limited to the years since the Global Financial Crisis. From this extremely unrepresentative interval you'd infer that stocks – particularly tech stocks – generate consistently strong returns, and that bonds usually produce losses; hence you'll tend to concentrate your portfolios heavily towards equities and shun bonds.

If You're Now 45 ...

The Dot Com bust and GFC bookended your formative years. Hence your expectations will likely be modest, and you'll tilt your portfolio in a conservative direction – that is, towards the bonds which will withstand crashes and crises.

If You're Now 60 ...

Your formative years commenced in 1982 – which, coincidentally, also marked the start of the equities bull market which, despite several major vicissitudes, has arguably persisted to the present. It also included the cumulatively tremendous decreases of rates of inflation and interest which put a rocket under bonds' total long-term returns. You'll therefore tend to balance your portfolio and expect strong long-term returns from both.

If You're Now 75 ...

Your formative years commenced in 1967 and concluded in 1979. During this interval, sharp rises of consumer price inflation and rates of interest (“stagflation”), as well as severe recessions, crushed both stocks and bonds. You've therefore experienced what the other cohorts haven't: equities and bonds can simultaneously generate long-term losses.

Implications

“A key implication of the experience hypothesis,” reckon Malmendier and Nagel, “is that differences between ... attitudes should be correlated with differences in life-time experiences ... More recent return experiences have stronger effects, but experiences early in life still have significant influence, even several decades later.”

Housel is more specific: “people's lifetime investment decisions are heavily anchored to the experiences those investors had in their own generation – especially experiences early in their adult (lives).”

Your assessment of investment risk and prognosis of stocks' and bonds' long-term prospects thus tends to weight two periods disproportionately heavily: the relatively recent past and your formative years (which I've assumed occur between 18 and 30 years of age). Few people naturally regress present and recent past returns to their long-term mean; instead, most extrapolate them into the future. Perhaps subconsciously, they also expect what's “normal” – which is what they experienced during their formative years.

If you're 75, your experience of stock market losses when you were 18-30 tempers your extrapolation of recent stellar gains; the result is a justifiable (by long-term standards) expectation of future returns.



If, however, you're 30, there's a big problem: the past 12 years and your formative years coincide. Hence your personal experience of unusual stock market gains since you were 18 magnifies your extrapolation of equities' exceptional gains since the GFC. The result is an unrealistically bullish outlook – that is, overconfidence.

When the conventional wisdom collapses (it always does; it's simply a matter of time), the oldest cohort will suffer relatively little: they've been in the market longest, and thus accumulated the biggest nest eggs; moreover, their relatively modest expectations will temper their disappointment. The two middle cohorts will incur greater losses (they've had less time to accumulate assets), but the bitter (45-year-olds) and balanced (60-year-olds) experiences during their formative years will temper their unease.

The youngest cohort will suffer most. That's not just because it has the least to lose: its portfolios are stuffed with the most vulnerable assets, and its expectations about future returns are the most overconfident and thus the least realistic: financially and psychologically, the youngest cohort will therefore sustain the biggest financial losses – and incur the biggest psychological shock.

Hence my conclusion: in matters related to investment you should generally doubt anybody under 30 years of age. Today's young obviously aren't innately dumb – and middle-aged and elderly people certainly aren't inherently intelligent. But the young necessarily lack varied life experience and wisdom; they're therefore more impressionable than older people.

Most importantly, they lack the direct experience of extended market adversity, disappointment and loss – and thus perspective, scepticism and above all wisdom – which successful long-term investment requires. **E**

FUTURE GENERATION WOMEN: DRIVING RETURNS AND GENDER EQUALITY



By Ingrid Pyne, Senior Editor and Corporate Affairs Advisor, Future Generation

When Caroline Gurney took over as Future Generation chief executive in late 2021, the group's founder Geoff Wilson flagged the prospect of launching a third philanthropic investment fund.

"I had always wanted to do something for women, particularly around financial literacy and economic equality," says Gurney, who had spent the previous two decades working for UBS and Citigroup across Asia, Europe and Australia. "So the idea of a fund run by women, for women, began to form in my mind."

It took almost three years – and one particularly productive meeting with Bruce Tomlinson, Investment Director at Andrew and Nicola Forrest's Minderoo Foundation – for the idea to take shape. Last December, Future Generation launched Future Generation Women, a bold investment initiative to drive gender equality in Australia.

The unlisted trust, seeded with \$100 million from Minderoo, marks the third investment vehicle under the Future Generation umbrella. The group also runs two listed investment companies – Future Generation Australia (ASX: FGX) and Future Generation Global (ASX:FGG) – which donate 1% of their assets to charity each year. Since launching a decade ago, the group has contributed almost \$90 million to Australian non-profits, placing it among the top 30 corporate donors in Australia.

"Future Generation Women is not just an investment fund," says Gurney. "It's a movement. It's a step closer to a world where gender equality is not an ideal but a reality."

Like its counterparts, Future Generation Women is run by a group of leading fund managers, who waive all management and performance fees to enable the donation of 1 per cent of assets.

What sets Future Generation Women apart, however, is its commitment to having the capital managed exclusively by women. These women portfolio managers aim to introduce a gender lens into their investment decisions, considering factors like board composition, equal pay, how companies attract, retain and promote women, and policies around work life balance. By addressing these issues head-on, Future Generation Women hopes to drive systemic change across industries.

The Australian equities team behind Future Generation Women boasts some of the best-known managers in the domestic market. These include Catherine Allfrey of WaveStone Capital, Katie Hudson from Yarra Capital, Airlie Funds Management's Emma Fisher, Jun Bei Liu of Ten Cap, Julia Weng from Paradise Investment Management and First Sentier's Dawn Kanelleas.

All these managers have outperformed their benchmarks since their funds first launched. This track record stands in stark contrast to recent Morningstar data showing that only 50% of active funds in Australia surpass their benchmarks.

On the global equities side, Future Generation Women's investments are overseen by Nikki Thomas of Magellan, Fleur Wright of Northcape Capital, Qiao Ma from Munro Partners, Armina Rosenberg from Minotaur Capital, Vihari Ross of Antipodes Partners, and Chanel Stuart-Findlay from Plato Investment Management.

Future Generation founder Geoff Wilson, who founded and chairs Wilson Asset Management, insists the all women-led approach is not virtue signalling.

"We're doing this because women are better fund managers than men – that is a fact," he said at the fund's launch in December, referencing several reports that found female investors typically outperform their male counterparts by employing strategies that are more diversified and risk conscious.

Despite this, only 19 per cent of portfolio managers in Australia are women – a statistic that Gurney and Wilson are determined to change.

"By allocating capital to women fund managers, we're actually giving them a bigger seat at the table," says Gurney. "We'll be working together to make sure they have the clout and scale to succeed."

Gurney says assembling an all-female-managed fund in a competitive industry where women are underrepresented wasn't as difficult as some had anticipated. "The quality of the fund's managers has well and truly answered the sceptics," she says. "There's been a hunger for women-led funds to shine. It's just about creating the right space for them to make an impact."

Impact Beyond the Numbers

For more than a decade, Future Generation's dual-purpose model has focused on delivering competitive investment returns while making a meaningful social impact. Since 2014, Future Generation Australia has delivered an average annual return of 9.36%, outperforming both the S&P/ASX All Ordinaries Accumulation Index and the S&P/ASX Small Ordinaries Accumulation Index. Over the same period, Future Generation Australia and Future Generation Global have donated a combined \$87.2 million to non-profits supporting children and youth at risk and youth mental health.

With Future Generation Women, Gurney aims to take the model even further, addressing the urgent need for greater gender equity in the Australian economy. The 1 per cent donation from the fund will go to organisations that are working to combat harmful gender norms; improve financial literacy for women and their children; and increase access to employment for those most impacted by economic inequality, including older women, Indigenous women, and those from rural and regional areas.

Despite women representing half the population, they remain underrepresented in leadership positions across many industries. Gurney stresses that this gap isn't just a social issue; it hampers Australia's economic potential.

"By investing in women, we're investing in Australia's future prosperity," she says. "The economic case is undeniable. Tapping into the talent and skills of women will bring more people into the workforce, and the diversity of perspectives will enrich every industry."

It's a vision shared by Nicola Forrest AO, co-founder of the Minderoo Foundation, which helped kickstart Future Generation Women with its \$100 million donation.

"Future Generation Women is an important and welcomed spotlight on women and their potential in Australia – particularly those in the funds management industry," Forrest says. "Every year, gender inequality continues to cost Australia A\$128 billion. To truly shift the dial and overcome the outdated norms that hold our entire country back, we need changemakers that are ready to speak up, act and embrace collaboration. This is why we're proud to be standing alongside Future Generation as it champions investment in women."

Future Generation Women: A Three-Fold Impact

Future Generation's mission has traditionally been twofold: to generate money for both investors and the Australian non-profit sector.

With Future Generation Women, the impact will actually be three-fold.

As Gurney explains, "First, we're opening doors for more women in funds management by increasing their assets under management and nurturing their portfolio construction skills. Second, we're helping to level the playing field for women through our not-for-profit partners. And third, we aim to change the investment landscape by introducing a gender lens to our investment strategies."

As with other Future Generation funds, Future Generation Women is managed by an expert Investment committee (IC) tasked with ensuring it has the right balance of managers and investment strategies to drive investor returns.

The portfolio construction process began with all prospective fund managers submitting a Request for Proposal (RFP), outlining their investment philosophy, process, performance history and approach to diversity.

From there, the IC created a portfolio that balanced size, style bias, and potential for alpha generation. Using BARRA, an advanced analytical tool, the IC examined various manager configurations and evaluated risk characteristics such as growth, value, earnings per share, momentum, and size based on the underlying securities. The goal was to build a portfolio that relies heavily on stock-picking expertise, identifying and maximising stock-specific risks while minimizing market risk for optimal performance.

The IC also plans to use MSCI ESG Research to assess the ESG Values Alignment of the portfolio.

Future Generation Women's IC includes best-in-class professionals like Anna Shelley (Chief Investment Officer at AMP), Bruce Tomlinson (Investment Director, Minderoo Foundation), Alison Hill (State Chief Investment Officer at QIC), John Coombe (Principal Consultant and Director at Jana), Suzanne Branton (CIO at CareSuper) and Geoff Wilson (Chair and CIO at Wilson Asset Management and Founder of Future Generation).

Elana Rubin, a leading non-executive director who also sits on Future Generation Women's Advisory Council, highlights the IC's 50% female representation, a rarity in the investment world. Rubin adds that the IC is also committed to nurturing emerging female talent by offering opportunities for less experienced women to observe and build expertise in portfolio management.

"We all know the power of mentors and sponsors on one's career, and being given our first opportunity," she says. "So, we're going to use the IC as a kind of incubator. We're going to invite women who are interested in this field, but have less experience, to come and observe what we do, so that they can build up their expertise in portfolio construction and strategic investment. That way we're deepening the pipeline of future female fund managers."

Rubin says it is vital that more women get their "finger on the capital" in Australia.

Effective Giving: Making a Meaningful Social Impact

In addition to its investment offering, Future Generation also taps into a growing demand for more effective and meaningful giving.

As Jennifer Westacott, Chair of Future Generation Global, explains: "I think Australians want to be a nation of givers but they want to do that in a structured way. People have a very low tolerance for just giving money and not feeling that they're part of something. They want to understand the effect of their giving."

Drawing on its roots in funds management, Future Generation follows an investment-like approach to philanthropy, backing small to medium-sized organisations that have proven track records and the potential for greater impact.

In each of its cause areas, it constructs portfolios of complementary not-for-profits for the same reasons that fund managers build a diversified investment portfolio: to mitigate risk and maximise returns. All partners in each portfolio are working towards the same overarching goal – but using different approaches – and the portfolios have all have a national footprint, with a mixture of national, state and community-based organisations, including Aboriginal Community Controlled Organisations.

Legendary stockpicker David Paradise, who was one of the first fund managers to support Future Generation by managing money on a no-fee basis, says fund managers are used to recognising how important allocation is to overall success. "It's really exciting to see Future Generation now bringing this kind of thinking to how we can help young Australians more meaningfully," he says.


Future Generation Women will open an Expression of Interest process for prospective non-profit partners in the middle of this year, with the aim of unveiling its portfolio of impact partners by December. Emily Fuller, Future Generation's Social Impact Director, says: "Our experience with Future Generation Australia and Future Generation Global shows us that by running an open process, we unearth hitherto unknown organisations that are doing incredible work across the country."

A Promising Outlook

Though still in its infancy, the performance of Future Generation Women has been promising. With a well-diversified portfolio that blends capital growth and income, the Investment Committee believes the fund is well-positioned to navigate market uncertainties.

With the addition of the new women's fund, Future Generation has also moved to boost its capabilities with the appointment of its first ever Chief Investment Officer, Lee Hopperton.

Gurney says Hopperton, who has more than 25 years' experience in the investment industry, having held senior roles at JPMorgan, Macquarie, AusCap and Perpetual, would add significant distribution and investment muscle to Future Generation's operations and elevate its growth strategy.

Yet, for Gurney, the overarching goal remains simple: "Our mission is to help Australia become the fair, productive, and competitive economy it can be. We're not just raising funds; we're raising the standard for how businesses and investors approach important social issues, like gender equality, mental health and disadvantage." 

DRONESHIELD



By Oleg Vornik, CEO and Managing Director, DroneShield

Market Position and Competitive Edge

DroneShield (ASX:DR0) operates in a rapidly evolving defence and security sector. What differentiates DroneShield from competitors, and how do you maintain your market leadership?

It really comes down to staying ahead. Cast your mind back to the company's origin – we introduced leading edge counter-uncrewed aerial systems (C-UAS) capabilities when there was no counter-UAS industry. We saw the potentially devastating impact of drones on the battlefield and to civilian life while most only recognised them as toys.

What also sets DroneShield apart from competitors is our singular focus on counter-UAS. We remain ahead because we are specialists who have closely analysed drones and their nefarious uses and are therefore at the forefront of innovation.

Commercial Differentiators

DroneShield's unique advantage lies in its global intelligence network, which provides real-time insights into emerging drone threats from key conflict zones such as Ukraine and the Middle East. Our strong relationships with Tier 1 customers and partners allow us to anticipate and counter the latest drone technologies before they become threats.

- **Global Presence & Reputation:** DroneShield has a strong global brand and a reputation for innovation and quality. We have a direct presence in key regions, including the U.S. (Virginia) with 20 staff, as well as Europe, LATAM, and the Middle East. This is further supported by a global distributor network spanning over 70 countries.
- **Defence Market Barriers to Entry:** As the original counter-drone pioneer, DroneShield benefits from industry barriers to entry, including security-cleared staff, international certifications, NATO Stock Numbers, and all products being non-ITAR solutions. This significantly strengthens our position in securing contracts outside the US.
- **Established Sales Pipeline:** Defence procurement cycles take years to materialise. With a deep sales pipeline nurtured over multiple years, we now have dozens of projects at different stages of maturity. This is a key advantage over early-stage counter-drone companies that are only beginning to build their pipelines.

Technical Differentiators

DroneShield is rapidly scaling its operations and is on track to grow to 330 employees by mid-2025, including an expanding engineering team of over 200 hardware and software engineers. This expansion enhances our subject-matter expertise and strengthens our ability to deliver cutting edge solutions.

- **In-House Development:** All DroneShield hardware (except radars and cameras) is developed in-house, eliminating reliance on third-party intellectual property, with large-scale manufacturing outsourced to our specifications. Similarly, all SaaS software is developed internally, including AI engines for RF sensors, cameras, sensor fusion, and electronic warfare (EW) applications. This ensures full control over our technology stack. Our technology roadmap is continuously refined based on real-world experience and shifting threats, ensuring we remain ahead of emerging challenges.
- **Comprehensive C-UAS Integrator and Solutions:** We offer a complete suite of solutions, from body-worn and mobile systems to fixed-site deployments. As both an integrator and sensor manufacturer, we provide flexibility to customers by integrating third-party equipment when needed. In the US for example, we have integrated with defence primes such as SAIC, Thales, and Lockheed Martin.
- **Proven AI & Data Capabilities:** DroneShield has arguably the world's largest AI-driven database for radio frequency, sensor fusion, and optical/thermal AI. Our experience in operating our AI model for over 5 years

has enabled us to build large, clean datasets, a crucial differentiator in AI-driven defence applications. Unlike competitors who may focus on algorithms, our advantage lies in the scale and quality of our data, supported by a dedicated in-house data engineering team. This depth of experience and data cannot be built overnight.

Growth Strategy

What are the key growth drivers for DroneShield over the next 3-5 years? Are there specific sectors or regions where you see the most opportunity?

After nearly 80 years of relative peace, geopolitical stability is deteriorating, with rising actors like China and Russia seeking to upend the rules-based order. In response, Western nations are increasing military expenditure, a trend further supported by the current US Trump Administration, which is encouraging Europe and other allied nations to expand their defence budgets.

Defence Sector Growth

Within defence, drones and counter-drone technologies will remain front and centre, driven by the strike-and-counter-strike dynamic. Drones offer a significant cost advantage over traditional military assets and eliminate the need to place personnel in harm's way. The Ukraine conflict has accelerated advancements in small drone technology, reinforcing the need for counter-drone solutions.

A major growth driver is low market saturation, because unlike established defence procurements for helmets, firearms, and night vision goggles which have existed for decades, the drone and counter-drone market is still in its early stages. Military planners are now prioritising counter-drone capabilities and will continue to upgrade and refresh equipment every few years, much like mobile phone and computer hardware cycles.

Civilian Sector Growth

The civilian sector presents significant opportunities across stadiums, airports, data centres, law enforcement, and border protection. However, adoption has been hindered by two key factors:

1. **Reactionary customer mindset** – Currently, many civilian-sector customers react only after high-profile drone incidents occur. However, as drone threat awareness grows, this will shift, prompting proactive adoption. Once major industries such as data centres and airports begin implementing counter-drone solutions, they will keep their security strategies confidential, further reinforcing the market's expansion.
2. **Legislation and regulatory barriers** – Counter-drone technology adoption is currently constrained by legal and policy restrictions. However, as drone-related security incidents increase, this issue will gain more public and political attention, leading to policy and legislative changes that will unlock new commercial markets.

Financial Performance and Revenue Streams

Can you share insights into DroneShield's revenue model? How do you balance government contracts, commercial sales, and R&D investments?

DroneShield's revenue model consists of three key components:

1. **Hardware sales** are currently the largest contributor to revenue, driven by direct equipment purchases by military and government customers.
2. **SaaS (Software-as-a-Service)** bundled with various DroneShield hardware products provide ongoing trailing software updates and enhance system capabilities over time.
3. **Multi-year R&D contracts** in electronic warfare are a highly complementary and mutually beneficial stream that aligns with our core counter-drone business.

All three revenue streams are expected to continue growing, with a strategic focus on increasing SaaS and R&D contracts as a larger share of revenue. DroneShield is already seeing significant gross margins across all product categories including hardware, due to the highly differentiated nature of our solutions.

To date, DroneShield's revenue has come from government contracts, but we anticipate non-government sales to grow, particularly in drone detection as the civilian sector expands. As regulatory frameworks evolve and awareness of drone threats increases, this market will provide further opportunities.

Historically, the US has accounted for approximately 70 per cent of revenue. From 2025 onwards, we expect significant geographical diversification, as indicated by recent contract wins in Asia-Pacific, Europe, and Latin America:

- In January 2025, DroneShield secured three new contracts worth a combined \$11.8 million with a military end customer in an unnamed Asia-Pacific country.
- In January 2025, DroneShield secured a \$9.7 million contract from an unnamed military customer in Latin America.
- In December 2024, DroneShield received a repeat order of \$8.2 million from a major European military customer for dismantled and vehicle-mounted counter-drone systems.

Regulatory and Geopolitical Challenges

Given the complex regulatory environment around defence technology, how does DroneShield navigate export controls, government approvals, and geopolitical risks?

DroneShield has a dedicated regulatory and compliance team with deep expertise in defence and export controls, ensuring we adhere to all government regulations. We have strict internal processes in place to manage compliance across all aspects of our business.

Our products are subject to Australian Government export controls and, in some cases, US Government approval regulations. To ensure full compliance, our export approval and shipping processes follow strict, established protocols that align with regulatory requirements.

It goes without saying that DroneShield does not conduct business with countries such as Russia, the People's Republic of China (PRC), North Korea, and Iran.

By maintaining a rigorous compliance framework, we mitigate geopolitical risks while ensuring that our technology is delivered only to approved allied nations and trusted partners.

Technology and Innovation

Counter-drone technology is constantly evolving. What is DroneShield doing to stay ahead in terms of R&D, AI integration, and product innovation?

DroneShield remains at the forefront of counter-drone technology by continuously advancing intelligence gathering, AI integration, and product innovation. Our approach is driven by real-world data, a structured engineering roadmap, and continuous technological advancements.

1. Intelligence and Data Collection

DroneShield has Tier 1 customer relationships across the globe, providing us with intelligence on the latest drone technologies. Our devices can operate in recording mode, collecting real-world data that is sent back to our engineering team in Sydney. This data is used to refine our AI engines, particularly in handling edge cases: scenarios on the far end of the bell curve that are essential for improving AI accuracy. AI performs best when it can recognise and adapt to rare and complex threats, and our approach ensures continuous learning and refinement.

2. Engineering Roadmap & Product Development

DroneShield follows a detailed and evolving engineering roadmap, developed in close consultation with end customers, our sales team, and distributors. Our roadmap includes quarterly deliverables and is supported by our 200+ in-house engineering team, which continues to expand. Additionally, we leverage third-party consulting resources as needed, ensuring we stay ahead in hardware and software innovation. All resulting intellectual property is fully owned by DroneShield, giving us complete control over our technology stack.

3. AI Integration & Sensor Fusion

AI has been a core focus for DroneShield for over five years. Initially, our technology relied on a manual RF "fingerprint" library of drones. However, as drone proliferation accelerated, with novel drone models emerging regularly, we transitioned to a true AI-driven model.

- Library-less AI Approach – Instead of simply comparing received data to a pre-defined database, our AI can detect never-before-seen drones, making our technology future-proof against evolving threats.
- Optical AI Detection – We train our camera-based AI to identify and track drones in complex environments, enabling precise detection and classification.
- Sensor Fusion – We integrate multiple sensor outputs (radio frequency, radar, cameras, and acoustic data) using an AI algorithm originally developed under an Australian Government innovation contract. This multi-sensor fusion significantly improves detection accuracy, maximising drone detection while minimising false alarms—a critical factor in modern counter-drone systems.

4. Product Innovation & Continuous Improvement

DroneShield follows a rapid innovation cycle, releasing new hardware every 2–3 years and software updates every quarter. These developments are driven by direct feedback from end customers, distributors, and our sales team, ensuring our solutions remain aligned with evolving threats.

DroneShield does not view other counter-drone companies as primary competition. Instead, the real challenge comes from drone manufacturers themselves, as drone technology continues to evolve at a rapid pace. Our customers do not expect counter-drone systems to be 100 per cent effective at all times, but they require systems that can mitigate the vast majority of threats and continuously improve over time. This philosophy of ongoing innovation and collaboration with customers is what has made DroneShield a trusted leader in counter-drone technology.

Investor Value and Shareholder Returns

For investors considering DroneShield, what are the key value propositions? How do you ensure long-term shareholder returns amidst changing global security dynamics?

As previously mentioned, geopolitical tensions continue to drive increasing defence budgets, with counter-drone technology emerging as a key focus area. In both the US and Australia, counter-drone systems are recognised as critical defence capabilities, as demonstrated by Australia's LAND 156 program, which is expected to be the country's first major rollout of counter-drone systems.

Key value propositions for investors include:

- Strategic positioning in a high-growth market. Counter-drone technologies are still in its early stages, with military planners globally prioritising its adoption and expansion. DroneShield is well-positioned to capture this growth with strong commercial and technological differentiators.
- A strong financial position. DroneShield is well-funded, with over \$200 million in cash reserves, providing the capital necessary to scale operations, invest in R&D, and secure long-term contracts.
- Proven revenue growth. DroneShield has a track record of continuous revenue growth, and 2025 is already shaping up to be another record year. Just two months into the year, we have secured \$52 million in revenue, compared to \$57 million for all of 2024, which itself was an all-time record year for the company. **E**

POSITIVE OUTLOOK FOR SMSF INVESTORS



By Chris Hill, National Manager of Strategic Relationships at Australian wholesale trading platform AUSIEX

The self-managed super fund (SMSF) sector's growth – and its contribution to the Australian investment market – continue to thrive.

Last year, the number of SMSF funds and their investors reached record levels, accounting for more than quarter of the Australian investment marketplace.

AUSIEX research revealed that newly established SMSF trading accounts grew by 14.5% year on year across both advised and self-directed segments last year.

According to our annual SMSFs Under Advice report, the value of advised SMSF accounts on the AUSIEX platform increased by 13.4%, compared to a growth of just over 3% for self-directed accounts in 2024.

There was not only a rise in the number of SMSF accounts, but also an increase in the number of trades by those accounts, which rose 7.5% over the past year. Advised SMSF accounts placed 14.5% more trades, while self-directed SMSF trades increased by only 1.6%, indicating a significantly different and arguably more passive approach to market conditions.

Notably, much of the trading activity of advised SMSFs last year focused on the top ASX20 securities, with a significant portion of advised SMSFs selling off Commonwealth Bank stocks (CBA) as the stock price surged and valuations became more stretched.

Generational differences also emerged, with Millennials' account numbers growing by 9.8% year on year, suggesting increased interest from this investor cohort. In contrast, Generation X's share of new accounts fell marginally. Interestingly, advised Baby Boomer trading volume increased by 15%, while Generation X trading volume jumped by almost 20%. However, advised Millennial SMSFs recorded the largest year-on-year increase in trades, with 23.8% more accounts placing 35.5% more trades.

The extra increase in the value of advised SMSF accounts likely stemmed from greater diversification across both market sectors and security types. This included an increasing allocation to exchange-traded funds (ETFs), with advised SMSF accounts allocating close to 37% of their holdings to ETFs in January 2025, versus 26.5% a year earlier. This contrasts sharply with self-directed SMSF investors' continued preference for direct equities, with ETF holdings at just 8.5% in January compared to an 85.2% allocation to direct equities.

In terms of market sectors, advised SMSFs are more diversified and tend to have a wider range of allocations, particularly in consumer staples, consumer discretionary, health care, and industrials. By contrast, self-directed SMSF portfolios are generally more concentrated in financials, materials, and information technology stocks.

Interwar-generation SMSFs allocated the most to financials, while advised Generation X SMSFs allocated significantly more to healthcare stocks than their self-directed counterparts and less to industrials. Advised Millennial SMSFs allocated significantly more

to healthcare, industrials, real estate, and consumer discretionary stocks than their self-directed counterparts.

Advised SMSF investors also held significantly more hybrid securities (5.8% of their AUSIEX holdings) than their self-directed peers (1.8%).

Trading Habits

The direct equity holdings of advised SMSF investors, while constituting less of their portfolios, were also more diversified across all sectors of the market.

Non-advised investors tended to be concentrated in the financials and materials stocks that dominate the local sharemarket, whereas advised investors had higher allocations to other sectors such as consumer staples, health care and industrials.

The end result of all the above is that advised SMSFs on average held more securities than non-advised investors by January this year.

Advised SMSF accounts held 15 securities on average, in comparison to 12 for self-directed SMSFs. The largest holding in advised SMSF accounts, on aggregate, also constituted 29% of portfolio value, compared to 44% for self-directed SMSFs.

Advisers appear to be convincing their clients of the merits of portfolio diversification, even during a year in which the market narrative was dominated by gains in US technology stocks and local market stalwarts like Commonwealth Bank.

Advised SMSF investors were also more active traders in 2024 and had a minor sell bias in their trading activity.

Overall, SMSF trading rose 7.5% year on year but advised SMSFs stepped up their activity the most, placing 14.5% more trades in 2024 than the previous year. The increase was likely in part due to increased interest in global shares, in particular international equity and US equity ETFs.

Much of the trading activity took place in the second half of the year as strong gains in global market and the US election appeared to encourage advisers to actively position and rebalance clients' portfolios. Trading by advised SMSFs centred largely around ASX20 securities, with Vanguard's MSCI Index International Shares ETF (ASX: VGS) also featuring among the top 10 'buys' for the year.

Boomers Dominate

Baby Boomers remained the most likely investors to open new SMSF trading accounts, even though the youngest of that generation is now 60 years old. This cohort of investors continues to account for just over 50% of all new SMSFs trading accounts on the AUSIEX platform.

Generation X and Millennials were also active on the new account front. The latter's share of total new trading accounts jumped from 6.7% to 9.8% year-on-year as more people in this age group (29-44 years) likely reached the point at which they have sufficient assets to justify operating SMSFs.

The growing investing power of Millennials was also evident in the trading patterns of each generation. Millennials had the largest year-on-year increase in trading volumes (35.5%) among advised accounts in 2024, compared to Baby Boomers (15%) and Generation X (20%).

It appears evident that younger SMSFs investors may have different trading preferences to their parents, not just because of their stage of life but also due to their familiarity with securities such as exchange traded funds and even cryptocurrency.

Exchange Traded Funds

Exchange traded funds (ETFs) now account for almost a third of the listed investments held by advised SMSFs as more planners turn to them as a building block of portfolios.

The *SMSFs Under Advice* report found the trend towards the use of ETFs in advised accounts was in direct contrast to their still limited use in self-directed SMSFs.

The findings suggest advisers and SMSF trustees often draw on ETFs to gain broad exposure to assets not easily accessible to retail investors.

International equity products, for example, accounted for 48.7% of the ETF holdings of advised investors at the end of 2024, led by investments in "global strategy" ETFs (which adopt more specific strategies than broad index-tracking products).

Self-directed investors allocated more overall (50.8%) to international equity ETFs but displayed a greater eagerness than advised clients to chase gains in specific markets. This was most apparent in the former's 18.4% allocation to US equity ETFs versus the more moderate 9.3% of ETF holdings that advised SMSFs allocated to the same products.

More investors are incorporating international shares into portfolios. Previous perceptions of Australian investors as having a home bias are fading as ETFs and trading technology give them better access to global markets.

Advisers also appear to be using ETFs to overcome the well-known barriers to entry that make it difficult for retail investors to gain meaningful exposure to Australia's bond market.

Domestic fixed income ETFs accounted for 14.4% of advised SMSFs' overall ETF holdings in a sign of the asset allocation expertise that advisers offer clients. Self-directed SMSF trustees appeared less convinced of the merits of diversification across asset classes, investing just 4.4% of their ETF holdings in fixed income products and another 2.4% in cash ETFs.

The key attributes of ETFs – including cost-effectiveness, relative liquidity and tax efficiency – appear to resonate strongly with advisers seeking efficient diversification tools.

The top 10 ETF holdings for advised SMSFs by value at February 2025 included not just typical core holdings such as the Vanguard MSCI Index International Shares ETF (ASX: VGS) and iShares S&P 500 AUD ETF (ASX: IVV). Others to feature in the top 10 included the VanEck MSCI International Quality ETF (ASX: QUAL), the VanEck Global Infrastructure ETF (Hedged) (ASX: IFRA) and Betashares' Nasdaq 100 ETF (ASX: NDQ).

The top ETF holdings for self-directed SMSFs were largely similar but held at different weightings in portfolios. One exception is Betashares Global Cybersecurity ETF (ASX: HACK) which is the among the most-held ETFs by self-directed SMSFs but absent from the top holdings of their advised peers – a difference which again highlights the propensity of unadvised investors to take relatively big positions.


New Investments

SMSF trustees' interest in cryptocurrency jumped in late 2025, likely fuelled by a surge in the price of Bitcoin triggered by the election of US President Donald Trump (who is an advocate of crypto generally). In fact, the combined value of SMSF trades in cryptocurrency spot price ETFs and crypto infrastructure ETFs doubled across all accounts in the final quarter of 2024.

There are many considerations for advisers with clients who have an interest in cryptocurrency, not least of which is the volatility of the asset class. But ETFs do appear to provide a mechanism by which some advisers are comfortable including it as a small proportion of their clients' asset allocation if appropriate.

Demand for thematic ETFs was also evident in a moderate increase in holdings in products related to ESG, global healthcare and battery technology.

The number of advised SMSF accounts holding thematic ETFs focused on current and emerging trends rose by 13.2% in 2024 and by 15.7% for self-directed SMSFs.

ETFs appear firmly entrenched as an investment vehicle of choice for financial advisers and their SMSF clients. As more ETFs come to market, the products will likely feature as a staple of even more portfolios alongside direct equities. 

Download the AUSIEX research paper – SMSFs Under Advice: a comparative analysis of advised and self-directed SMSF accounts – <https://www.ausiex.com.au/media/206140/2025-smsfs-under-advice-rgb-ausiex.pdf>

Media Contact

Guy McKanna
Honner
M 0430 355 985
E guy@honner.com.au

About AUSIEX

With over 25 years of experience in the market and the backing of NRI, a global powerhouse in technology and operations services, we have a depth and breadth of knowledge within the Australian equities market, enabling us to understand the world our clients operate in and the challenges they face.

Supporting all segments of the Australian wholesale market, we provide choice and flexibility across the entire trade lifecycle. Our offering covers domestic and international trade execution, clearing and settlement services, online corporate actions, portfolio administration, tax reporting, fully supported B2B platforms and everything in between.

About NRI

Founded in 1965, NRI is a respected and innovative global powerhouse in technology and operations services. With a strong balance sheet and presence in major financial centres worldwide, NRI is a world leader in innovative, cross-asset, multi-currency, front and back-end financial IT solutions for investment banks, asset managers, and insurance providers. For more information, visit <https://www.nri.com/en>

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STOP LOSS – STOPPING OR LOCKING IN LOSSES?



By Shani Jayamanne, Senior Investment Specialist, Morningstar

A Reader Submitted Question on the Stop Loss Function Offered by Brokers

A reader of Equity magazine recently submitted a series of questions. They wanted to understand the stop loss function that you can activate through your broker.

Some brokers offer their clients the option to place a stop loss order on a holding. The purpose of a stop loss order is to let the investor specify a share or unit price that they would want their investment automatically sold at. It is intended to be a risk management tool to protect an investor against significant losses.

For example, if you bought a share at \$60, and you set a stop loss at \$20, the broker will automatically sell your holdings if the price falls to \$20. While not ideal at least you saved part of your capital, right? The alternative argument is that you just locked in your losses. An investor would use this functionality as a risk management tool. They would set an order to limit the loss on a certain position at a specified level. For a position that has appreciated the stop loss order could be used at a price above the purchase price.

There are several reasons I would not use a stop loss order in my own portfolio. I will outline my thoughts and then get to some specific questions from the reader.

Price and Value Are Not Synonymous

The first is that a drop in the price of an asset isn't always indicative of the value of the asset. In fact, most of the time it is due to market volatility rather than a reflection on the value of the asset. If price and value were always the same there would be no point in investing in individual shares. To accept that there are sometimes large variations between price and value means a stop loss order could automatically sell a share for far less than it is worth. That is not a formula for investing success.

Does the Original Thesis for your Investment Still Stand?

When you buy a share or ETF it should be because you have a thesis as to why this particular investment is attractive and will help you achieve your goals. This thesis should not be that you want the price to go up. That is the ultimate outcome you desire but the thesis should explain why you think the price will go up. Having a thesis about 'why' something will happen is what separates an investor from a speculator.

Price movements over the short-term may not relate to the validity of your long-term thesis. Personally, I'm much more comfortable reassessing my thesis than having an automatically triggered sale based on price movements.

Are Price Movements the Only Thing that Matters?

They are not. Some investors are trying to generate income from their portfolios and a stop loss order would lower the amount of income generated by a portfolio. A share holding with a safe and growing dividend could be sold automatically based on price movements.

Some investors are simply trying to beat the market which means a stop-loss order selling a position at a 5% loss would seem counterproductive if the market had fallen 10%.

Reader questions:

Is there a Difference When Applying Stop Losses to Australian shares, Overseas Shares or ETFs?

Technically there isn't a difference as in each case the investor would define a price that the share or ETF would automatically be sold. For an overseas share, because the stop loss order would be in the local currency of the share, that wouldn't necessarily protect you from losses in Australian dollars. If the local currency appreciated against the currency the share was trading in you could experience losses without the stop loss order being triggered.

In the case of an unhedged ETF that is investing in foreign shares the stop loss order could be triggered because of currency differences rather than movements in the underlying shares. This would still be a loss for you as an investor but the driver of that loss would be currency changes. Something to keep in mind.

The Consequences of an Unintentional Stop Loss Execution

The first is transaction costs. You'll pay brokerage on the way out, and if you wanted to get back into the market you would pay it on the way in. You'd also cop buy/sell spread.

The second is potential tax. If your investment has appreciated and your stop loss is above your cost basis, you will incur tax for the sale. If it is a capital loss, you may be able to net this against capital gains for the year – but this forces your hand. You will still have to sell an asset to incur capital gains, and you miss the opportunity to strategically time this to improve your net outcomes.

The third is behavioural. It is hard enough staying invested. It is even harder to get back invested in a volatile market. If a stop loss is executed, it is likely you're in stormy seas. Having your investments sold, and realising a large drop in the value of your holding is not really incentive to get invested back in the market. Depending on the type of investor you are, you may sit out the volatility and wait to get back invested at a later date. Over the last 30 years, if you missed the S&P 500's 10 best days, your return would be cut in half. If you missed the best 30 days over the last 30 years, your return would be 83% lower. 78% of the best days occurred in a bear market. Regardless of whether it is short-term volatility or you're in the midst of a bear market, it is folly to think that you are able to time the rise in markets. It's a pure gamble, and you're likely to miss out on some of those days that make up the majority of returns.

Lastly – there is slippage. It is likely that your stop loss has been executed at a time where there is security specific or market volatility. Meaning – the price will be moving rapidly. The price that your trade is executed may be different to the stop loss price that you entered into because of market liquidity. You may end up disappointed with the price that you receive.

Is There a Place for Stop-Loss Orders?

As long-term investors, we exchange short-term volatility for higher expected long-term returns. It is normal to feel anxious during volatility but to be successful we need to limit the poor behaviour of selling low and buying high. It is very easy to engage with a function like stop-loss. It takes the pain away and ensures that you at least maintain some of your capital. If you use it to lock in a loss or a gain you are potentially giving away long-term success to feel better over the short-term. I see these as tools for traders. I prefer to focus on the long-term. I only sell my investments as part of a thought-out process that considers my financial goals, instead of a knee-jerk reaction to markets. **E**

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BALANCING BOOKS AND PORTFOLIOS: A STUDENT'S INVESTING STORY



By Caity Somers, Marketing and Education Manager, Australian Shareholders' Association



Investing isn't just for seasoned professionals or retirees—it's for anyone with curiosity, discipline, and a willingness to learn. Thivyan Aravindan, an ASA member and company monitor, embodies this as he balances university life with a deep passion for investing. From reading his first finance book at 14 to sitting across from ASX-listed company directors, Thivyan shares his journey, insights, and how ASA has helped shape his approach to investing.

Q1: How long have you been a member of the ASA?

I've been with the ASA for just over a year now—rookie numbers compared to many long-standing members!

Q2: How did you begin your investment journey?

I started investing when I was around 14, thanks to my dad's collection of property investment books. One of the first books I picked up was *Rich Dad's Cashflow Quadrant* by Robert Kiyosaki, which introduced me to the differences between assets and liabilities. I remember jotting down my 'assets' at the time—some loose change from my blazer pocket, heavy textbooks, and an unfashionable school tie. Needless to say, I had a long way to go!

It was also around this time that I participated in the ASX Sharemarket Game, which exposed me to financial markets and sparked my passion for investing. From there, my interest snowballed.

Q3: What are you currently studying, and what inspired your choice?

I'm in my final year of a Bachelor of Economics at UNSW. My high school economics teacher had a talent for linking economic principles to real-world issues, which made the subject both fascinating and intuitive for me. The ability to influence society and understand how people think, act, and live through economic forces is what inspired me to pursue this field.

At university, I've developed a strong interest in behavioral economics. Since investor psychology plays a huge role in market success, mastering this aspect is something I'm keen to continue exploring.

Q4: How has your perspective on investing evolved since starting university?

I started university at 18, and my approach to investing has matured significantly since then. Initially, I saw all shares as equal opportunities for wealth-building. But after reading books like *One Up on Wall Street* by Peter Lynch and *Five Rules for Successful Stock Investing* by Pat Dorsey, I realised that different shares serve different purposes. Investing isn't a one-size-fits-all approach—it requires strategic thinking tailored to long-term goals.

Q5: How do you balance university life with investing?

Aside from my lifelong grudge against early morning lectures, I wouldn't say university and investing clash too much. During exams, it's definitely easier to procrastinate by speculating on Star Entertainment's future than finishing econometrics problem sets!

One of the great things about university is the abundance of clubs and societies—including investment societies—where I've met like-minded peers who share my passion for markets and finance. It's a fantastic way to discuss major market movements while making friends along the way.

Q6: Have your university studies influenced your investment decisions?

Yes, but not in the way you might expect. The frameworks used to analyse economic issues are surprisingly similar to those used for evaluating businesses. Whether it's assessing how interest rates impact

inflation or how companies adjust pricing strategies to gain market share, the cause-and-effect thinking I've developed in economics helps me assess a company's long-term outlook.

That said, I don't believe formal education alone makes someone a better investor. There's a lot of 'noise' in investing, and macroeconomics can sometimes cloud judgment. I've learned to focus less on share price fluctuations and more on reading annual reports, evaluating management decisions, and forming my own conclusions before comparing them to market sentiment.

Q7: What ASA resources or events have been most beneficial to you?

If people count as resources, then my fellow company monitors top the list. Many ASA monitors have decades of experience in fields like consulting and executive management, and I've been able to learn so much from their insights.

I also love the ASA luncheons with industry experts. One of my favourites featured Paul Bloxham, Chief Economist at HSBC, discussing global productivity trends. It's incredibly valuable to hear firsthand insights from experts who shape economic and financial discourse.

Q8: What does your role as a company monitor entail?

Imagine being a 19-year-old sitting across from the board of an ASX-listed company, questioning the CFO of Scentre Group (Westfield) on their expense ratios or challenging the Chairman of AMP about executive remuneration. That's what being a company monitor is like!

The role involves selecting a company based on the number of proxies provided to the ASA, drafting a voting intentions report, attending pre-AGM meetings, and preparing key questions for company directors. Then comes the AGM itself, where we vote on resolutions and engage with executives and shareholders. Finally, I draft a post-AGM report detailing voting outcomes, announcements, and shareholder concerns. It's a unique experience that places you at the heart of corporate Australia and gives you real influence as a retail investor.

Q9: How has being a company monitor shaped your investment strategy?

Before joining the ASA, I focused almost entirely on financials. Now, I also scrutinise executive remuneration and management behaviour. I judge leadership based on three criteria: compensation, character, and operations.

For example, I ask questions like:

- Do executives have enough skin in the game?
- Will they still be rewarded if shareholder returns decline?
- Have they kept their promises in the past?


Numbers are important, but even a great business can fail under poor leadership. ASA has helped me refine my strategy to include both quantitative and qualitative factors in my decision-making.

Q10: What advice would you give to someone considering becoming a company monitor?

If a uni student like me can do it, anyone can! This role is incredibly dynamic—it puts you at the heart of corporate Australia, allows you to engage with high-level executives, and helps you become a better investor.

I strongly recommend partnering with another monitor when you start. Having someone to bounce ideas off, double-check your work, and provide feedback makes the experience even more rewarding.

Representing over \$8 million in proxies on behalf of retail shareholders has been an eye-opening experience. If you're looking for a way to make a real impact, ASA is the place to do it.

Happy investing! 

INVESTING IN CONSUMER STAPLES

By Magellan Financial Group

Why Invest in Consumer Staples?

During economic downturns, while spending on discretionary items like travel and eating out may decline, the demand for vital staples – like food, drinks and hygiene products – often remains steady throughout economic cycles. Companies operating in these areas are typically defensively positioned. Although their growth may be somewhat slower compared to companies in other sectors, we believe consumer staples offer stable, reliable, and attractive long-term growth.

Growth in the consumer staples sector comes from population growth, changes in living standards and evolving consumer preferences. Consumer staples companies must innovate and develop new products to align with changes in consumer needs and demands. A commitment to innovation in key trends such as health and wellness, sustainability, personalisation and premiumisation not only drives long-term growth potential but also strengthens the competitive advantages of companies in this sector. We consider these factors essential when evaluating the quality of consumer staples companies.



Essential Consumer Goods – Always in Demand

The companies and industries that fall within this sector range from food products and beverages to essential retail goods, household products and personal care products. Not all companies and industries meet the requirements to be included in the Magellan quality investment universe. Extensive research is undertaken to identify the unique attributes of a company, such as their economic moat and moat trend, reinvestment potential and Environmental, Social and Governance (ESG) risk and opportunities, which we believe enable it to generate sustainable attractive returns over the longer term. Some of these industries in the Magellan investment universe include:

Food and Beverage

Food and beverage companies provide the sustenance and refreshment that fuel societies around the world. They need to be able to do this in spite of industry challenges ranging from weather disruption to geopolitical tensions or other supply chain

headwinds. Companies that have well-established strong brand recognition, expansive distribution networks and manufacturing capabilities and scale advantages are well-placed to dominate this market. Recent trends shaping this industry have been the demand for sustainable and ethical products and the health-conscious consumer. Companies that can adapt to these trends and changing consumer preferences are more likely to stay ahead of competition, driving the future growth of these companies.

Giants in this industry include companies like Nestlé, the world's largest food and beverage company. Nestlé's product suite of over 2,000 brands focuses on nutrition, health and wellness with a diverse range of offerings—from coffee and chocolate to baby foods, health science products and pet care. Nestlé's influence stretches across the globe, with a presence in nearly 200 countries. Its strategic positioning in key categories allows it to maintain a strong market position in its robust brand portfolio, a leader in most markets in which it operates.

Household Products

Household products include cleaning supplies such as disinfectants, detergents and surface cleaners; laundry items like laundry detergents, fabric softeners and stain removers; and kitchen goods such as dishwashing liquids, sponges and garbage bags. The demand for these products is often stable and consistent as they are necessary for daily use and are purchased regularly, making them a key part of this sector.

Innovation is a key attribute to consider when looking at quality investments in this sector. Companies positioned for growth will adapt and innovate in response to evolving consumer preferences and demands, thereby enhancing the user experience.

Colgate-Palmolive, founded in 1806 and known for its global presence and trusted brands, is one of the leading manufacturers of household and personal care products in the world. The company began as a small soap and candle business started by William Colgate in New York City and has grown into a global leader in consumer products such as oral care, personal care, home care and pet nutrition products. Colgate-Palmolive's commitment to innovation and investment in brand is key to its continued resilience and growth.

Personal Products

Companies offering personal products provide a range of items essential for daily hygiene and personal care. These include soap, shampoo, toothpaste, deodorant, hand sanitiser, cosmetics and perfumes. These products are non-durable, meaning they are consumed and replenished regularly.

Much like household products, consumers rely on personal care products for daily use. One of the biggest trends in this industry has been personalisation, the desire for consumers to have access to solutions catered to their individual needs particularly when it comes to skin, hair and personal care routines. Companies in this sector have been leveraging data and technology to provide personalised recommendations and product selection for specific consumer needs.

Consumers are increasingly focused on ethical and sustainable products, with a growing awareness of ESG in company operations.

Companies that are managing ESG risks and opportunities, like producing sustainable products and investing in sustainable packaging solutions, are more likely to have a competitive advantage over the medium to long term. When researching and assessing companies in this sector, it's important to consider a company's commitment to sustainability, as this can influence consumer trust and loyalty as well as a company's ability to navigate changes in regulation.

Since its establishment in 1909, L'Oréal has expanded to rank among the world's most prominent beauty and cosmetics firms and is part of the consumer staples sector. With a mission of democratising beauty and prioritising sustainability, L'Oréal is a proactive advocate for eco-friendly design, minimising plastic use and transparency regarding product effects. L'Oréal is one of the top global beauty brands, with a diverse range of products such as Maybelline New York, Garnier's range of haircare and skincare and NYX Professional Makeup. L'Oréal's scale, brand and distribution capabilities act as significant barriers to entry for competitors, enabling the company to generate attractive and reliable returns for investors.

Consumer Staples Distribution and Retailing

Within the consumer staples sector, few brands are direct to consumer. Brands typically rely on supermarkets to reach their customers conveniently, enabling the consumer to buy a basket of goods from a range of brands when needed.

The consumer staples distribution and retailing segment can be incredibly competitive. Few geographies have a consolidated industry structure, making it difficult for retailers to generate sustainable and attractive returns. Costco stands out as one retailer that has been able to consistently generate attractive returns, despite the fragmented market structure. Costco's business model is unique, offering a more concentrated high-quality stock keeping unit catalogue to its paid membership base via a warehouse shopping experience. Costco's scaled model enables them to offer attractive prices to its customers, creating value for members.

What are the Risks?

Investing in consumer staples comes with risks like any other sector. Thorough research and engagement with companies can help us to understand these risks when considering investing. Risks in the sector are typically more predictable given the staple-like characteristics of product demand.

Competition & private label risk: The consumer staples market can be highly competitive and subject to private label risk. Private label


refers to generic or 'home' brands produced by retailers at low price points. This is why it is important to be able to identify the high-quality companies that can invest in research and development, marketing and supply chain resilience as these factors can mitigate downside risk and improve sales growth.

Input cost sensitivity: Fluctuations in input costs such as paper, cocoa, coffee beans, grain or transport can have a material impact on product margins. While companies try to smooth the cost on final goods through hedging and repricing, there can be periods of underperformance as changes pass through the supply chain. Diversity in product helps manage the impact of this risk for investors.

Consumer trends: Shifts in consumer preferences and trends may result in reduced demand for specific products. Understanding your consumer through data analytics and thorough market research becomes crucial to understand how companies will adjust and innovate in response to evolving consumer preferences.

Product safety: Staples products are either consumed, used personally or used in the household. Product safety is paramount and presents legislative risk if not managed properly.

How do Consumer Staple Companies Fit into a Portfolio?

These consumer essentials play an important role in a well-balanced investment portfolio. Companies in this sector often have broad global reach, which can provide growth opportunities beyond local borders. These companies serve as a defensive layer in a portfolio, demonstrating long-term resilience. Balancing cyclical investments like tech or discretionary stocks with these defensive staples may help manage risk. 

Examples of Global Listed Consumer Staple Companies

	Nestlé SA is located in Switzerland. Established over 150 years ago, Nestlé is the world's largest, most diversified food and beverages company.
	Mondelēz International is located in the USA, and manufactures chocolate, biscuits, chewing gum, confectionery and powdered beverages. Key brands include Cadbury and Oreo.
	L'Oréal dates back more than 110 years and is located in France. L'Oréal is the largest beauty and personal care company globally.
	Colgate-Palmolive was founded in 1806. Colgate-Palmolive manufactures household and commercial cleaning products, dental and other personal-care products and pet foods in the United States and throughout the world.

As at February 2025

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INSIGHTS INTO A MILLENNIAL SMSF MEMBER



By Nathan Bartrop, ASA Member

Introduction

There has been an increase in millennials (those born between 1981 and 1996) choosing to open self managed super funds (SMSFs).¹ The median age of SMSF members established in 2022-23 (latest Australian Taxation Office (ATO) information available) was 47 (which is Generation X). You might wonder why someone would be driven to commit themselves to self invest in the millennial age group when there are a plethora of available options, including retail super, industry super and super wraps, as well as the ability to utilise insurance in many of these options at potentially attractive rates.

My journey as an investor started when I was in primary school, by reading the stock market pages in The West Australian and asking my Dad about his stock portfolio. He spent the earlier part of his working life in Melbourne and it was whilst he was in Melbourne that he had invested in mining and oil & gas companies, where he was mildly successful. He later kept some of the holdings in those shares and I would follow the ASX codes and track them every day. I honestly think that is the initial inspiration for being an investor in the Australian market and being part of the ASX ecosystem. As part of my 20 year career I have spent 3 years in professional services, just over 3 years in Perth and Sydney as an ASX listings compliance adviser and 14 years as a Company Secretary of various entities, including ASX listed entities. I've been a part of ASX listed entities' beginnings, demergers, takeovers and participating as Company Secretary in over 20 shareholder meetings.

From an investor perspective, now with young kids, I am a lot further away from a punt on speculative mining stocks and have shaken some of the mistakes of my youth. In my early days I invested in some of the banks and large mining companies which for some time did well, however I was often impatient and traded too much, as well as speculating on up and coming technology and mining stocks. Now I have learnt patience, compounding, sensibility and avoiding the herd, with more of a focus on exchange traded funds (ETFs) and listed investment companies (LICs).

Establishing the SMSF

Prior to making the decision to start the SMSF, I looked at what investments would be made by the SMSF and therefore narrow down the SMSF universe. Direct property was ruled out, as well as investing in cryptocurrencies and private equity within the fund. I then considered a wide range of providers that were predominantly electronic and able to be a one stop shop to provide all services. The administration manager that I choose is Stake Super. Prior to selecting Stake Super, I had multiple discussions with Stake, asked several questions and reviewed the information available on the Stake website to make sure that both members understood what was involved in setting up the SMSF.

Some other relevant websites that could be considered before setting up an SMSF are Moneysmart (by Australian Securities and Investments Commission) and Heffron. Moneysmart website has a specific article² which provides some research in setting up an SMSF, including:

- The requirements of an SMSF;
- The risks and responsibilities of an SMSF;
- SMSFs take time and money;
- You need financial and legal knowledge;
- SMSF Starting Balance;
- Receiving advice from a licensed financial adviser and other professional advice; and
- Structures in setting up an SMSF (individual v corporate trustees).

Heffron lists the following four topics to read before applying for an SMSF³:

- What are SMSF's
- Can anyone have an SMSF?
- What are the benefits of an SMSF?
- Is an SMSF right for me?

Key Characteristics of Setting up an SMSF

Some of the key characteristics which I think have been useful (mostly my experience) when setting up an SMSF are:

- Experiencing prior downturns as an investor (Global Financial Crisis, COVID);
- Understanding ASX and overseas markets (US/UK);
- Being a prior member of a retail fund, industry super fund and finally a member of a retail fund with a super wrap (which increased the investable universe within the fund);
- Experience as an officer of a Company and the obligations as a Director of an SMSF;
- Running a small consulting company;
- Medium to advanced understanding of taxation for individuals, companies and the superannuation system;
- Reading extensively across a wide range of obligations and taking in views from experienced investors and SMSF practitioners (Firstlinks) and
- Listening to financial podcasts on a range of topics, including property, shares, tax, wills and strategy. For example - Money, Money, Money with Glen James.

Benefits of an SMSF v Retail/Industry Fund

Taxation

Retail and Industry Funds generally calculate members' funds on a daily basis, by utilising unit prices for each of their investment options and are pooled superannuation funds, such as balanced or growth.⁴ In retail and industry funds, capital gains tax liabilities are deducted from the balance, even if units haven't been sold. Member Direct options such as in Australian Super can complicate this treatment.

For an SMSF, the assets are identifiable and any unrealised gains are not calculated in the member balance. As a result, assuming that specific assets are not sold prior to being in pension phase, the tax rate for realised capital gains and investment earnings is zero if the member is in the pension phase.⁵ In summary, the capital gains tax rules are the same for all, however each fund applies these rules differently. The tax benefits of the SMSF are greater in investments that focus more on capital growth than those focussed on income, as income is taxed prior to pension phase at 15%, where if the assets are not sold, the capital gain may be sold after preservation age with zero capital gains tax payable. Whilst retail and industry super funds do permit certain assets to be held, including ETFs, the taxation treatment depends on the relevant fund and what other assets it requires to be held in addition to those assets. As an example, Australian Super has a Member Direct option and requires specific criteria to be met to be able to activate and maintain this Member Direct option.⁶

Fees

The often quoted amount of \$500,000 is used as a basis to justify the establishment of an SMSF. Australian Securities and Investments Commission (ASIC) has case studies which show that the exact amount of money is one part of the consideration, there are specific factors that indicate suitability for members that \$172,000 may be suitable to set up an SMSF, whilst \$512,000 may not be suitable to set up an SMSF.⁷

In my case with Stake Super, the annual fees for two members, using the hypothetical \$500,000 balance total approximately \$2,814:

- \$259 annual supervisory levy to ATO;
- \$65 corporate trustee charge (special purpose company for SMSF); and
- \$990 year administrative fee (Stake Super), which includes the SMSF establishment in the first year, annual accounting, administrative, independent audit and year round support.⁸
- Estimated \$1,500 in indirect investment fees, assuming a 0.3% indirect fee (incorporated into the exchange traded funds share price). This is potentially on the higher side, with funds such as ASX:IVV (iShares S&P500 ETF (0.07%)) and ASX:A200 (BetaShares Australian 200 ETF (0.07%)) being lower, however some funds are higher such as ASX:I00 (iShares Global 100 ETF) at 0.4%.

Brokerage costs are not included in the above, however at \$3 per trade and possibly 4 trades a year, this wouldn't affect the fees much at all.

As a comparison, Australian Super provides an estimate of \$3,252 for a \$500,000 balance and uses average super funds of \$3,942 and average retail funds of \$4,643.⁹

I have only used one comparison industry fund, however it should be noted that most SMSFs will have potentially higher overall fees than \$3,252 due to different audit/accounting/taxation and other fees, with SMSFs involved in property likely to have significantly more fees per year. In my case the fees are less than an industry or retail fund, which may not be the same for others.

Investment Universe

The members selected Stake Super for a relatively basic service which has the ability to invest in Australian and United States listed stocks and ETFs. At this stage there is no proposal to delve further outside this model within Stake Super (for example direct property, cryptocurrency and private equity). Australian and United States stocks and ETF universe includes access to some cryptocurrency,

real estate investment trusts and private equity investments, although more limited than outside this service. At this stage given all funds are invested in ETFs or LICs and future contributions will be invested into existing investments, at a future stage the investment strategy will be refined when considering returns and future needs.

Pitfalls / Considerations

Some of the pitfalls and considerations in running an SMSF are:

- Understanding the responsibilities of running the fund;¹⁰
- Coordinating with the administrator in terms of changes to the super fund including member addresses, auditors' requirements, financial records, minutes (trying to do as much as possible);
- Considering investment strategy, changing markets, requirements for specific property (borrowing for an investment property, valuations of unlisted assets);
- Understanding limitations on related party transactions, including acquiring property from related parties;¹¹
- Investment strategy complying with the trust deed setting up the SMSF;
- Failure to understand and obtain advice in relation to investments;
- Committing time to review the investment strategy and comply with obligations; and
- General understanding of what the paperwork means, including pay as you go instalments for your fund (estimates of tax) and complying with timeframes provided by the ATO.

The future

One year into this process, I realise that I am still almost two decades from preservation age, being the time that I may be able to access your super if I am retired or start a transition to a retirement income stream, so at some level I am early into the journey. At a later stage the members are likely to seek the advice of a financial adviser to look at overall investments (that are held outside the SMSF), the place that the SMSF has in the overall financial strategy and general retirement planning considerations.

What I see may be challenging in the future is:

- reviewing performance, making changes and rebalancing the portfolio.
- getting closer to preservation age and the timing risks involved in the event of needing a lump sum or in general timing risk; and
- changing political environments, considering the current discussion around tariffs levied by the United States and other Countries which has the potential to impact international share markets. **E**

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WHERE TO AFTER HYBRIDS?

FINDING A NEW HOME IN BONDS FOR \$A35BN OF INVESTMENTS

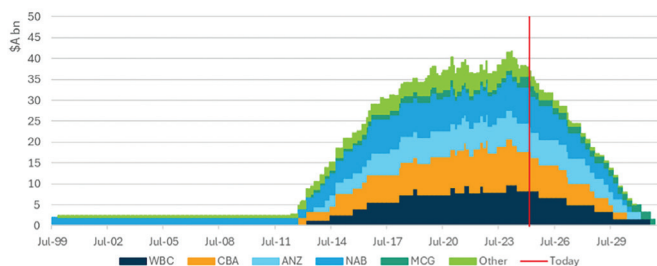


By Philip Brown, Head of Research at FIIG Securities, Australia's Leading Fixed Income Experts

Australian bank Hybrids, like CBA Perls or Westpac Capital Notes, have been a popular part of Australian investing since they came on the scene in 2012. They have performed very admirably for investors, but they are not performing the capital adequacy role they were designed for. As such, in December last year, APRA confirmed that Australian banks would no longer be able to use so-called "Hybrid Capital" or "AT1s" as part of their capital structure. This was not a surprise as the move had been telegraphed in September. But it does leave the market with something of a quandary.

The bank hybrid market is very large: there's consistently been between \$A35bn and \$A40bn on issue for the last five years. This will now run-off over coming years with the regulator telling banks, essentially, that the hybrids will remain in existence, but must be called at the first available opportunity. We see the last existing call date as being in December 2031. This will create a fairly steep and nearly linear run-down in amounts outstanding (see Figure 1).

Figure 1: Australian Bank Hybrid Capital (AT1) on issue



Source: FIIG Securities, Bloomberg

The amount invested will drop from \$A35bn now to \$A0 in six years. That's a lot of money to be returned to investors (and we're not even counting the interest). Where is that money going to be reinvested? Like almost every question, the answer is that no single new investment will fill the void entirely, but the most likely place for a majority of that cash to land is a slightly different part of the bank capital structure known as Tier 2 subordinated bonds. These subordinated bonds are issued by banks and, while different in structure, are quite near substitutes for the AT1 hybrids that have been discontinued. In fact, the APRA rule change that discontinued hybrids also required banks to issue significantly more Tier 2 subordinated bonds – so there will be investors looking to buy bonds just while banks are looking to sell.

But what are Tier 2 subordinated bonds? Taking a step back, let's look at what the differences are between regular shares, hybrids (AT1), Tier 2 bonds and regular bonds in the capital structure of a bank.

If you're reading this article, it's fairly safe to assume you know what a share is – and you probably already own some bank shares. In fact, thanks to superannuation, for Australians it's probably harder to avoid owning bank shares than it is to indirectly own one. But for completeness, we should note that owning a share is ownership of a small part of a company. This gives the owner the

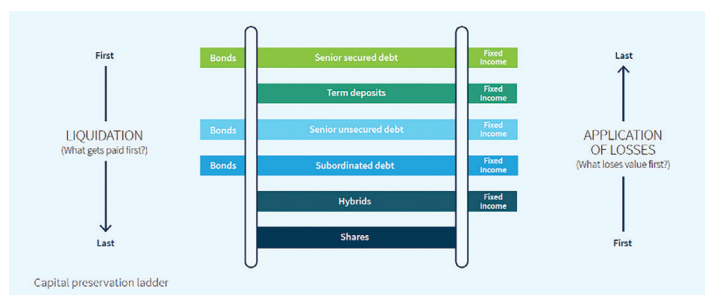
right to receive dividends paid out of the profits of the company as the board of directors sees fit. It also gives shareowners the right to participate if the whole of the company is sold. Shares are long-term investments that carry a reasonably high amount of risk. If the company is successful, the total return can be very large. It's possible, though rare, to double, treble or even quintuple your money in a relatively short space of time. Of course, if the company isn't successful the value can drop to zero, too. There's a wide variety of outcomes, which is why shares are referred to as risky investments. There's no guarantee of when, or even if, you will get your money back.

At the other end of the spectrum is regular debt. Debt investors in banks do not own part of the bank but are instead owed a specific sum of money back, with interest. Regular debt has very strict rules that dictate exactly how much is to be paid and on which precise days. If the bank doesn't pay the exact amount, then the bank can be forced into default. Regular debt owners get a very clear and precise definition of how much they are getting paid and when. If the bank hits difficulties and suspends or lowers dividend payments, the debt holders still get the same pre-agreed amount of interest. But that surety comes with a catch. That precisely described interest payment is both the minimum and the maximum that a debt owner can receive from the bank. If the bank does very well, makes large profits, and decides to increase dividends, the debt holder still receives the same amount of interest. Only if the bank fully defaults does the debt investor not receive their specified payment.

Both AT1 hybrids and Tier 2 subordinated bonds sit between these two extremes, having both equity and debt features. AT1 hybrids are more like equity, with some debt features. Meanwhile the Tier 2 subordinated bonds are more like debt, with some equity features. In both cases, there is still a maximum possible return, but that return is higher than for regular senior debt and is supposed to recompense the investor for increased risk.

Bank AT1 hybrids were supposed to be deeply subordinated. In the event that the bank did poorly, the hybrids were supposed to be able to have coupons suspended and, if that wasn't enough, the banks would write down the hybrids to ease their debt burden before the bank failed. Notice these are equity-like features – the ability to suspend interest is like the ability to suspend dividends, and the ability for hybrid investors to take a capital loss is clearly like equity. At least in theory the hybrids are equity-like. Although suspending coupons might seem like a good plan to give a bank some breathing room, it doesn't work in practice. A bank with a small cash-flow problem that announces they are going to suspend interest payments is now a bank with a large confidence problem and most likely suffering a bank run. Also, since Australian AT1 hybrids were mostly owned by retirees and non-professional investors, it made it very difficult, politically, to enforce the write-downs in the case of stress but before bank failure. This meant that hybrids were failing their two main capital adequacy intentions: they neither eased interest costs in times of stress, nor provided a reliable route to lowering total debt before failure. Hence, APRA has sought to move away from AT1 hybrids.

Figure 2: A bank's capital structure



Source: FIIG Securities

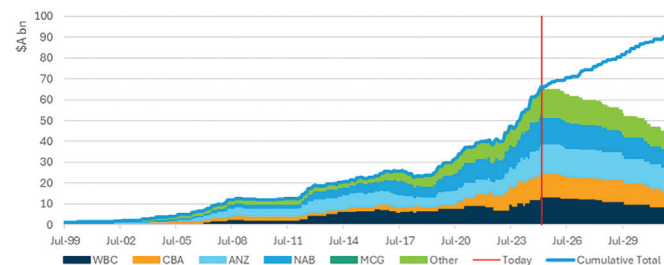
Tier 2 bonds are also exposed to write-downs if the bank that issues them fails, but the key difference between AT1 hybrids and Tier 2 subordinated bonds is that for Tier 1 hybrids, the write-down can happen before the bank fails as a mechanism to prop up the bank and help it continue as a going concern. However, for Tier 2 bonds, the write-downs only happen in the event of an actual failure. This is a subtle point, but it makes quite a difference to the risk profile. As a result, Tier 2 bonds have slightly less risk in them than AT1 hybrids and so usually have a very slightly lower yield. That historical difference in yield has eased recently. Investors want to keep hold of hybrids since they are not going to be replaced and, also, the APRA directive about calling them as soon as possible lowers the risk in hybrids, making them look more like T2 bonds.

Once APRA's proposed changes take place, large banks will begin the task of replacing the current 1.5% capital composed of AT1s with 1.25% capital composed of AT2s and 0.25% common equity (that is, shares). Smaller banks will simply replace AT1 hybrids with Tier 2 subordinated bonds. This process means that Tier 2 subordinated bonds will be lower in the banks' capital structure but protected by more equity. This is a slight increase in risk in Tier 2 bonds which will likely, over time, see yields rise a touch.

Although bank hybrids have been stagnating in total issuance of late, bank Tier 2 subordinated bonds have been rising sharply with a great deal more local issuance and some foreign issuers

also coming to Australian markets. Using only the conservative assumption that banks replace existing Tier 2 debt and then replace the outstanding Hybrids with Tier 2 (in a 5/6ths ratio to mimic the 1.50% to 1.25%) there will be a very large amount of Tier 2 issuance in coming years. Conservatively, it looks like nearly \$50bn over the next five years and even larger than that once we factor in growth in the system as a whole.

Figure 3: Australian Bank Tier 2 Subordinated Bonds on issue



Source: FIIG Securities, Bloomberg

The biggest difference between subordinated Tier 2 bonds and AT1 hybrids is not their yields – though there is a small difference there. As I write, a new deal is in progress from HSBC for a bond with a call date in 5 years' time that is offering a yield in the mid-5% range.

The biggest difference is that Tier 2 bonds pay regular cash as coupons, there is no fancy accounting or complications regarding franking credits. The Tier 2 bonds pay their interest rates as regular cash.

We are expecting a large flow-over of investors out of hybrids into Tier 2 subordinated bonds in coming years. Investors in bank hybrids will find that there is very unlikely to be any new issuance of this type of structure. Instead, as the hybrids mature new investments will need to be found. At the same time, the banks will be issuing large volumes of Tier 2 bonds, which will likely offer strong yields (well above term deposits – particularly if the RBA keeps cutting rates). This makes Tier 2 bonds well positioned to be a much larger part of the market. **E**

HASA MANNINGHAM DISCUSSION GROUP TURNS 20

By Margit Alm and John Parrott

In March 2005 Geoff Read, founder and convenor of the Manningham Discussion Group, chaired his first meeting of the group.

Since then, the group has been meeting regularly, every second Tuesday in a month (except January), with strong attendance – typically between 20 to 30 members.

Physical Meetings came to a standstill from April – December 2020 and again several times in 2021 due to Covid lockdowns, but thanks to member Bill Grint some meetings were conducted via Zoom.

There have been many membership changes during the years. Geoff Read stepped down at the end of 2014 and John Parrot and Margit Alm took over.

New members joined and others left, sadly a few passed away. Only four members, including the current convenors, were attending during the first year.

Topics changed over the years, from more emphasis on external speakers to making use of our internal resources.

Regular presentations have been given by members, such as Bill Grint, Mike Muntisov and Stephen Mayne.

Barry Grant commenced an annual Share Tipping competition, now running in its third year.

Many members continue discussions over lunch at the nearby Manningham Club.

Members actively participate during the meetings. The photo shows some of the more than 30 members who attended the February 2025 meeting. **E**

WHEN CAN I RETIRE?



By Peter White, Founder, Peter White Financial Planning

On the face of it, a simple question!

My name is **Peter White**, the founder of an Independent Financial Advice practice in Sydney. After 14 years as a financial adviser, helping thousands of Australia's retiree, I have experienced many different situations. This article will touch on some of the important topics most Australians in their 50's and 60's are starting to think about, drawing on my experience to add valuable insight.

The Financials

Of course, financials are important. Nobody wants to spend the remaining 20+ years of their natural life eating beans on toast and watching Freeview TV. The average person will put over 57,000 hours into their working career, you want that effort to be rewarded. For most, financials are the starting point.

Logically the earlier you retire or the longer you live, the more funds are required. Additionally, the level of expenditure is important. Travel is a common theme amongst Australian's, the retirement bucket list destination(s) you've been dreaming of. Expenditure is not linear, generally Australian's will spend more in the early years of retirement, at their most healthy and mobile point, slowing down during the middle part, then ramping up in the final stretch as health deteriorates and medical costs rise. Based on the Association of Superannuation Funds Australia (**ASFA**) research¹, a retired couple would spend \$73,031 p.a. to enjoy a comfortable lifestyle, \$51,814 p.a. for a single. Spending is not one-size-fits all though, for example many of my clients like an overseas holiday most years, not every six years as ASFA have assumed. That normally pushes the dial north of \$80,000 for a couple, especially in those early years.

Transitioning into retirement is a good strategy to consider, such as reducing to part-time hours or using long service leave as a top-up. Both are an excellent way to wind-down whilst not drawing much, or at all, from your hard-earned retirement nest egg.

An alarming rate of Australian's die with much of their super and investments intact, failing to adequately balance spending today and preserving for tomorrow. The elephant in the room, aged care, is on most people's minds. Exhausting everything is not wise. However, a focus on complete capital preservation is unhealthy, and can come at the detriment of a fulfilling retirement. Early, structured, and informed planning provides best results.

Age Pension

Age pension is fundamental for some. An underlying non-investment source of income yes, no risk, but a means test applies, meaning only around 58%² of Australians over 65 receive either a part or full Government age pension. Assets need to be below \$1,045,000 for a home-owner couple, \$695,500 if you are single, there is an income test too. The house is not assessed, but everything else is. Remember also, the eligibility age has been extended to 67 for everyone. Retire age 60, the earliest super is accessible when retiring, and you have a 7-year gap of pure self-funding; a big, long drain on the finances for some!

Being Prepared

Imagine holding a senior position at work, with lots of responsibility and never enough hours in the day, to having nothing to do. The average person might be awake 16 hours per day, times by 7 days per week, do the maths, that is a lot of hours to fill. Hobbies, interests, connections, family, are all good starting points. Many senior people thrive off the responsibility, can you replicate that in your local sports club or charity, by being part of the board, the organising or logistics.


The redundancy carrot can be tempting, and for some brings an early retirement. But be sure this abrupt, often unforeseen, event does not place you in a financial mess. Sadly, for some, it can be difficult to return to a similar line of work in their late 50's or early 60's. The job market is strong, you might be competing against a younger, cheaper, version of yourself.

The workplace is a community, a group of like-minded individuals striving to achieve a common goal. It can provide you a sense of purpose, something to get up for in the morning. A structure, a routine. I've come across many individuals who are happily working into their 70's, despite being financially secure and retirement ready years ago. There is nothing wrong with that. Keep doing what you enjoy, you are not alone.

Feeling ready and getting the right professional guidance is crucial. 77%³ of advised retirees said they are enjoying their retirement, compared to only 52% of non-advised retirees. Whilst it is never too early, starting to build a firm clear plan at least 5 years out is best practice.

Key Takeaway Statement

Financials provide security and allow you to do the things you love, but remember you need to understand your passions and interests that the financials will support.

For more information on retirement planning and to access independent financial advice, please visit www.peterwhitefp.com.au. 

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STATE BRANCHES

ACT	John O'Callaghan	act@asa.asn.au
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SA	Malcolm Holden	sa@asa.asn.au
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CONTACT DETAILS

TELEPHONE 1300 368 448
02 9252 4244

FAX 02 9071 9877

ADDRESS Suite 11, Level 22
227 Elizabeth Street
Sydney NSW 2000
PO Box A398
Sydney South NSW 1235

ABN 40 000 625 669

EMAIL share@asa.asn.au

WEBSITE australianshareholders.com.au

EQUITY EDITORIAL TEAM

EMAIL equity@asa.asn.au
Caity Somers, Editor & Cover Design

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