



Tim Keegan, AMP Capital

Tim is responsible for AMP Capital's presence in the self-managed superannuation fund (SMSF) and self-directed wealth markets including product development, direct distribution, digital interaction and partnership with AMP SMSF solutions. He is responsible for developing and executing the AMP Capital SMSF/SDW strategy as it applies to client insights, brand awareness, product penetration, sales and retention. Tim has over 20 years of experience in the Wealth Management and Funds Management industries. He was previously at National Australia Bank where he was Head of nabtrade and responsible for the development of the online brokerage business.

AMP CAPITAL BLACK SKY REPORT 2017

Tim Keegan

Reach beyond the expected with Black Sky thinking

Today SMSFs control \$600 billion in assets. That's one third of all superannuation money invested in Australia, making them the largest and fastest growing segment in Australia's super industry.

And with thousands of SMSFs opening up each quarter, this presents an overwhelming opportunity for financial advisers to understand and meet the needs of SMSF Trustees.

A new way of thinking

We've taken the Black Sky approach to uncovering the latest SMSF investment trends and insights, with the aim of helping financial advisers identify a range of advice opportunities to support their new and existing SMSF clients.

For the third year in a row, the Black Sky Report has been developed using research data from leading research house Investment Trends.

Our research shows, despite the recent market volatility, that investor expectations for their SMSF portfolio growth is at an all-time high.

We also found that the SMSF sector, along with the financial services industry, is undergoing a technology transformation, which is changing investors' expectations and behaviours.

Today's investors are demanding advice and information anywhere and anytime, and there is a vast amount of information at their fingertips.

And with regulatory uncertainty at its peak and new products entering the market, there is more opportunity than ever for financial advisers to keep ahead of these trends, and meet the needs of SMSF Trustees.

Methodology

The Black Sky Report 2017 is based on a quantitative online survey of SMSFs conducted by Investment Trends in November-December 2016. Invitation emails were sent to SMSF investors on the AMP Capital database.

The facts

- \$2.2t - in superannuation (as at December 2016)
- \$656b - in SMSFs (as at December 2016)
- 29.8% - of the market (as at December 2016)
- 1.1m - Australians now use an SMSF to manage their super
- 587K - Funds

ASFA, December 2016

The SMSF Investor

The need to be in the driver's seat

With an ultimate need to control their own investments, an investor's decision to run an SMSF is multi-layered; based on advice from their accountant, to save money on fees, more involvement with investment selection – along with the overwhelming belief that they can perform better than super fund managers.

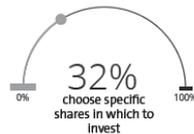
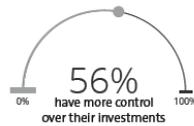
While most SMSF investors are in retirement, there is a growing number who are in retirement, yet working in a professional capacity on the side.

A Snapshot of SMSF Trustees

- \$1.5m – is the average balance (up from \$1.4m in 2015)
- 63 - is the average age (up from 61 in 2015)
- 25% - set up their SMSF in the last 3 years...

Figure 1.

KEY REASONS SMSF TRUSTEES SET UP THEIR OWN SMSF



Goals and targets – Great growth expectations

Our research shows us that SMSF trustees have high growth expectations over the next 12 months, with most believing they will beat the S&P/ASX all ordinaries index.

Black Sky facts

- 3.7% - is the total return that SMSF Trustees expect for the S&P/ASX All Ordinaries Index this year, yet...
- 10.9% - is the return that SMSF Trustees expect for their own portfolio this year (6% capital growth and 4.9% income)
- \$2m - is now the goal before they retire (down from \$2.1m last year)
- 72% - say they are on track to achieve this goal
- 10% - more time is now spent on managing and monitoring their portfolio

Inside the investors head

Just under half (48%) of SMSF Trustees say that their aim is to have a fully diversified portfolio yet more than 50% of their portfolio is invested in just one investment type (outside of managed funds) and 30% have over half their portfolio invested in direct equities alone.

Black Sky Thinking – The high risk of portfolio concentration

So it would appear that many SMSF Trustees – perhaps as high as 50% – are exposed to significant portfolio concentration risk.

If this continues and they don't diversify their SMSF portfolio properly, it could mean that many may struggle to achieve their retirement goals.

And with 76% of SMSF Trustees also saying they don't use any tools to help them with portfolio construction, there certainly appears to be the need for a strategic adviser to help them build and implement a robust and well-thought out investment strategy.

The advice opportunity – The need for a strategic adviser

This presents an opportunity for financial advisers to help SMSF Trustees through reviewing their portfolio strategy, and assessing their investment portfolio in line with their goals and targets.

Financial advisers also have an educational role to play in relation to portfolio construction, in particular, the importance of true diversification.

Research shows that it is asset allocation (not stock selection) that drives a portfolio's long-term return.

Investment approach – Most defensive in their asset allocation, a growing number are aggressive.

The continuing market volatility has seen SMSF trustees make significant changes to their portfolios.

Defensive

We found that many are becoming more defensive, with 55% moving to a more defensive asset allocation (up from 53% last year), while 23% sold their assets for cash (up from 16% last year).

However, those who became more defensive also did so to focus more on generating income.

Aggressive

As you'd expect, those who were more aggressive did so to generate growth. There are, however, some that remain positive about future market performance, with 18% making changes to be more aggressive (up from 13% last year).

This raises an important question...

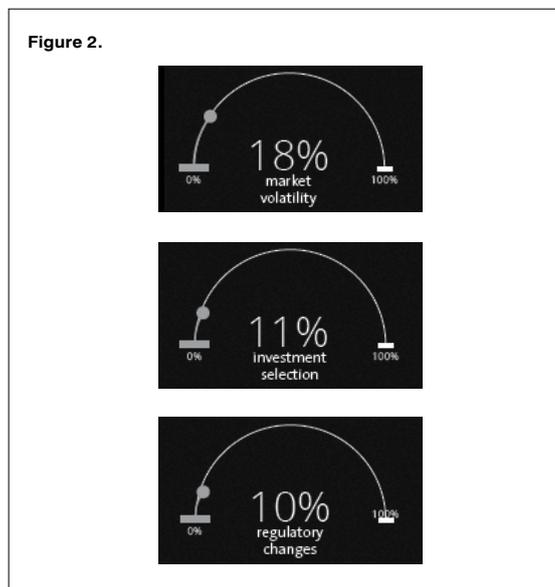
Will their more defensive asset allocation actually deliver the returns or income they're after?



The quote

Today, Australia's superannuation market is valued at \$2 trillion, and is estimated to grow to \$3 trillion by 2035.

The biggest investment challenges for the SMSF trustees over the next 12 months



Black sky thinking: An adviser's role as a validator

The different way SMSF Trustees see investment markets highlights that there is no 'one size fits all' approach when it comes to portfolio construction.

In line with their desire to have control over their investments, 52% of SMSF Trustees surveyed described the relationship with their adviser as a 'validator'.

So rather than focusing on specific recommendations, advisers re-framing their role through offering more investment guidance and technical assistance could be one way to engage with SMSF Trustees in the future.

The advice opportunity – Broadening the service offering

It is very clear that many SMSF Trustees do need help, especially around portfolio construction, understanding regulatory requirements, compliance and taxation.

And with 59% saying there are areas where they would like to receive more financial advice, this provides further opportunities for advisers, either within their own business or through partnerships with other specialists.

Investments – A growing appetite for Australian equity funds

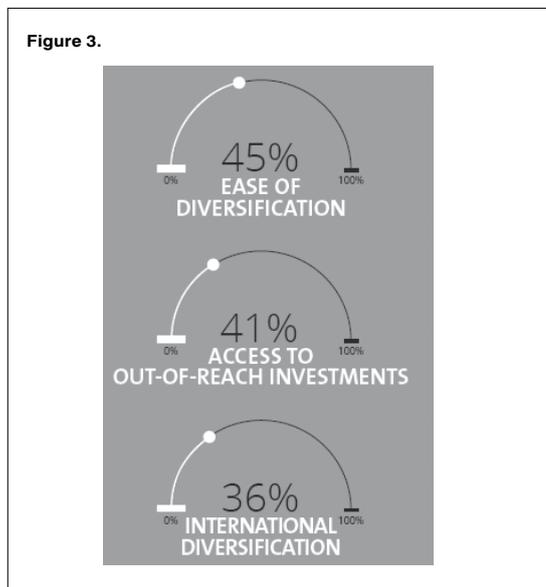
30% of SMSF Trustees found their most recent managed fund investment from their financial planner.

SMSF Trustees continue to find managed funds attractive, with 47% investing around \$280,000 in them.

We also found SMSFs are typically citing fewer hurdles to investing in managed funds (2.9 hurdles to investing, down from 3.5 hurdles last year).

The facts

Demand for managed funds is driven by the main benefits they offer SMSF Trustees, which are:



And financial advisers play a key role, with 30% of SMSF Trustees finding out about their most recent managed fund investment from financial advisers.

Black Sky Thinking: Building on this goodwill

There is an increasing appetite among SMSF Trustees to invest in Australian equity funds, both active and passive.

This provides a significant opportunity for financial advisers to be more proactive in recommending high quality unlisted managed funds, as well as introducing SMSF Trustees to the increasing range of passive and active exchange traded funds (ETFs).

Demand for equity income funds is also rising, which could suggest that SMSF Trustees are now more open to investing in equities to generate income in retirement.

The advice opportunity: A focus on income

Being able to offer SMSF Trustees new income options, outside of cash and term deposits, will become more important, as the average age of SMSF Trustees gets closer to 65.

Advice and support – Investors still have unmet advice needs – and advisers can bridge this gap

62% of SMSF Trustees with unmet advice needs would see a financial adviser.

A clear theme from our research was that three out of five SMSF Trustees have unmet advice needs, with there being a growing preference for comprehensive advice (20%, up from 18% in 2015).

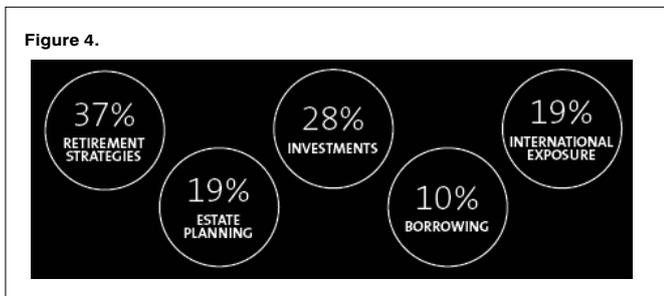


The quote

Our research shows us that SMSF trustees have high growth expectations over the next 12 months.

The facts

The areas in which SMSF Trustees would most like to receive advice are around:



Black Sky thinking – Showcasing advice expertise

This presents a significant business opportunity for financial advisers – not only working with the increasing number of SMSF Trustees looking for comprehensive advice, but for the 62% with unmet advice needs saying they would turn to a financial adviser.

The advice opportunity – start small, and build from there

Providing SMSF Trustees with support and advice on those areas where they have an immediate need will allow advisers to highlight their value and increase the scope of the services that they provide over time.

On demand - SMSF trustees are taking a DIY approach to investment research

The facts

SMSF Trustees spent an average of:

- 2.3hrs - Per month researching their most recent investment
- 2.7hrs - Per month researching ETFs (active and passive)
- 2.6hrs - Per month researching Listed Investment Companies

A desire for greater control and transparency over investments, enabled by technology, is currently reshaping the industry.

Consumer expectations and behaviours have changed as technology advances, with investors now expecting free insights, tools and multimedia to be accessible at any time.

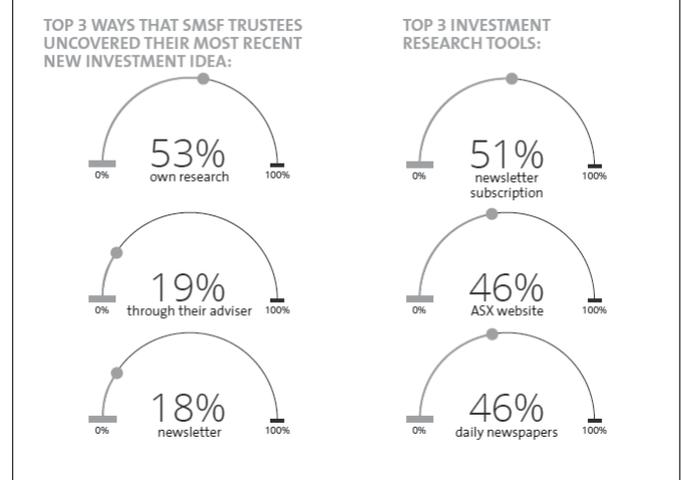
In Australia alone, there are now over 100 robo-advice software platforms that have emerged over the last few years.

More investment decisions are being made collaboratively

It is also worth noting that SMSF Trustees are increasingly making decisions in partnership with another SMSF member, financial adviser, accountant or stockbroker – with only 44% making decisions on their own (down from 52% in 2016).

As highlighted earlier, 52% of SMSF Trustees still want validation from their financial adviser.

Figure 5.



Black Sky thinking: Collaboration amidst the technological disruption

With more and more SMSF Trustees undertaking their own research, and the proliferation of publishers and robo-advisers, it could be argued that there is more of a need than ever for SMSF Trustees to join forces with financial advisers to help them navigate through the SMSF landscape.

The advice opportunity: Becoming a content provider

Not only can financial advisers act as validators for SMSF Trustees when developing investment strategies and choosing investments, they can also provide investment advisory and educational content through their own communication channels.

Regulation and legislation change – Regulatory uncertainty is a key concern

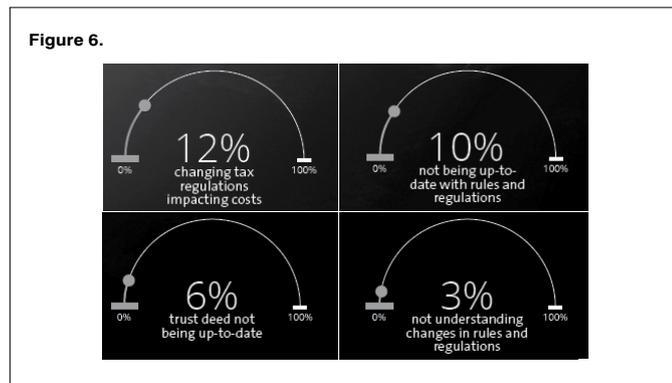
SMSF Trustees now appear to be spending more time on researching legislative changes and less on administration (1.2 hours per week, up from 1 hour per week last year).

And if we dig a bit deeper, we find that the major concerns that SMSF Trustees have around legislative changes are too much regulatory uncertainty (39%), \$1.6m transfer cap (19%) and simply keeping up-to date with all the changes (15%).

The facts

Inside the investor's head – 2017

The specific concerns that SMSF Trustees had around regulatory change were:



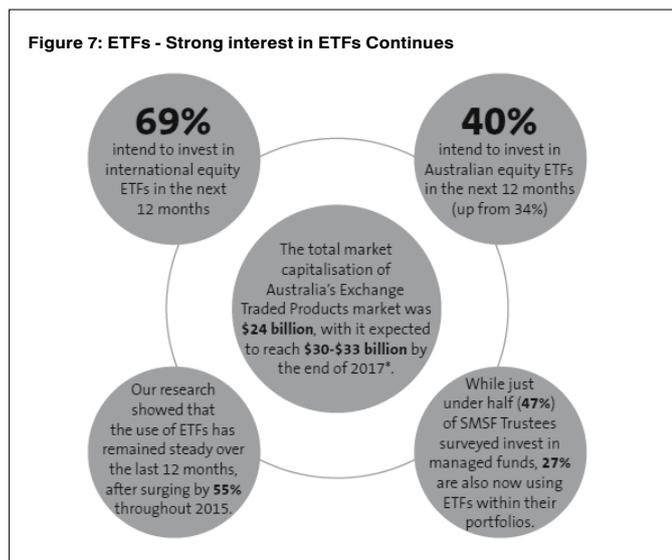
Black Sky thinking:

Providing ongoing support to help SMSF Trustees understand regulatory changes is one area for financial advisers to consider, as is creating new investment strategies around specific events, such as the \$1.6 million transfer cap.

And with 73% saying they also check their SMSF at least once a week, there is definitely scope for financial advisers to help them navigate through the ongoing maze of advice, reporting, news and information.

The advice opportunity: A focus on structuring

There is an opportunity for financial advisers to continue to play a key role in advising SMSF Trustees on how best to structure their SMSF to meet regulatory and legislative requirements.



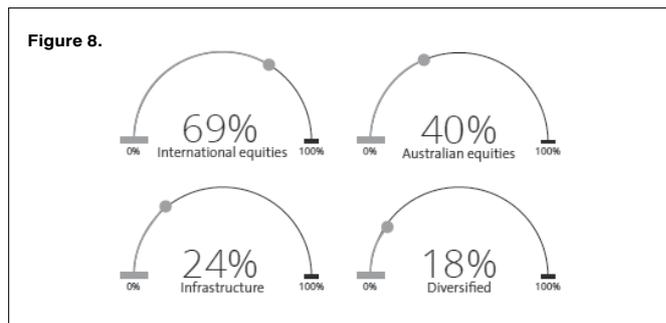
The facts

With an average investment of \$60,000, 6% of SMSF Trustees surveyed said that their most recent investment was into ETFs, with both current and future users offering the same reasons for using them:

| | CURRENT USERS | FUTURE USERS |
|--------------------------------|---------------|--------------|
| Diversification | 80% | 69% |
| Access to overseas investments | 56% | 52% |
| Low cost investment | 60% | 44% |

In which ETs are SMSF trustees most interested?

Existing ETF users said they were most interested in...



...while those that intend to invest in ETFs have a greater appetite for:

- **Australian equities 48%**

We also found that a growing number of SMSF Trustees aged 64-69 years are turning to ETFs for income, as well as capital growth.

Black Sky thinking: an ETF education revolution

SMSF Trustees are actively seeking more information on ETFs through media coverage, research reports and marketing material.

Our research found that recent investors said that they discovered information about their ETF investment through:

- 61% - Their own research
- 42% - Investment articles/newsletters
- 12% - A financial adviser

It is clear that financial advice around ETFs is an untapped opportunity, given many SMSF Trustees continue to use ETFs within their portfolio to improve diversification, access overseas markets and manage costs.

The advice opportunity: A focus on education

86% of potential ETF investors told us that they'd like to receive more information before investing.

This could be an excellent way for financial advisers to increase their influence through educating SMSF Trustees on how ETFs work and how to use them within their portfolio.

Active ETFs

Over half of the SMSF Trustees surveyed (57%) would also like to receive more information about AMP Capital's Active ETFs before investing in them, with their most common needs being information around:

- 37% - Performance
- 30% - Costs
- 29% - Advantages and Disadvantages
- 28% - Comparisons between different active ETS
- 26% - How ETFs works **FS**