PROFILE
FINANCIAL SERVICES

PROFILE'S CORNER

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*Asset class returns referred to in this publication are based on the following indices: Australian shares: S&P/ASX 200 Accumulation Index. International shares: MSCI World (AUD) TR Index. Fixed interest: UBS Warburg Composite All Maturities Index. Cash: UBS Warburg bank bill Index. Gold: Spot Gold Bullion (USD).

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Profile Update

Welcome to Volume 27 of our quarterly client newsletter. In this section, I provide an update on what's happening at Profile.

By Sarah Abood, CEO

Client seminar – Tuesday 10 October
If you haven't already RSVP'd, make sure you get in soon to reserve your place at our upcoming general education seminar at The Epping Club! Covering the hot topic of Property, our guest speaker Robert Harley (previously the AFR's Property Editor) will take us through the past, present and possible future of the property market. Together with Profile's Head of Investments Jerome Bodisco, we'll consider property both as an investment asset – and as a place to live. Don't miss this seminar on a topic very close to the hearts of many clients.

Staff update
In recent months we've welcomed several new members to our team:

Firstly, **Vivian Rudra** joined us in mid June as Associate Financial Planner. Most recently a financial analyst at Unisys, Viv previously worked with HSBC in Colombo, Sri Lanka (his home town). He holds a bachelor of Applied Finance from Macquarie University, the Diploma of Financial Planning, and an alternative investments qualification from LSE. Named for cricket great Viv Richards, he also plays a pretty good game of himself! Viv will be working with Senior Financial Planner Kurt Ohlsen.

Kurt's previous associate, **Grant Watson**, is still with Profile, but taking some "leave" (a hilarious concept to any parent) to look after his beautiful new daughter, Ella. We are hoping to entice Grant back for a couple of days per week soon. Although I'm sure you'll agree from that photo, we have some tough competition….

We're very pleased to annouce **Rachael Arnold's** promotion to Financial Planner, effective July 2017. Rachael has been with Profile for three years, following two years with Centric Wealth Advisers. In her time here she has impressed us, and her clients, with her strong technical understanding of the profession as well as her genuine care for her clients.

Danielle Berry joined Profile in mid June as Client Service Officer. Previously in similar roles at Evalesco and Spectrum Tailored Mortgages, Danielle had a previous career as a personal banker (with Westpac) before deciding to make the change to wealth. Danielle will be supporting Phil Win and Todd Stanford and their clients (while Helen du Bois moves to support Laura Donovan and Rachael Arnold).

Finally in mid July, **Michael Zaia** joined Profile, as Associate Financial Planner. Previously with Macquarie in various client support roles, Michael holds a Bachelor of Commerce from the University of Sydney. He's a talented soccer player, representing the university in Futsal soccer – and has written a recent post on LinkedIn lamenting some of the dangers! Michael will be supporting Profile planner (and fellow soccer aficionado) Scott Ungaro.

Investment Update

By Jerome Bodisco, Head of Investments

Period returns to 31 August 2017 (%)

Asset class	1 mth	3 mth	1 yr
Australian shares	+0.7	+0.9	+9.9
International Shares($A)	+0.4	-3.3	+10.4
Fixed interest	-0.01	-0.7	-0.7
Cash	+0.1	+0.4	+1.8
Gold($US)	+4.1	+4.1	+1.0

Spring is the season of new beginnings, warmer weather, green shoots and lawnmowers! It is also a great time to take stock of your financial position and put your Winter planning into action.

Over the past couple of months, the Profile team has been working feverishly, not just to keep warm or because we had the flu, but to prepare for Spring and the year ahead! The following article provides a summary of our current thinking, expectations for the future and strategy as we attempt to make sense of where we are and where we are going.

Current asset class views

When setting investment strategy, it is important to understand current global macro developments given their influence on the future direction of capital and financial markets, and risk and return. Once we have a good handle on the global 'state of play' we next turn our attention to the asset classes which together form the opportunity set for investing and portfolio construction.

The chief concern here is valuation. The goal is to find good buys, not necessarily good assets. We are firmly of the belief that buying low and selling high, is the most dependable path to good returns. The table below outlines our current thoughts across asset classes over the short to medium term. The conviction level reflects our assessment of value and risk/return prospects.

	Conviction level	Commentary
Australian equities	**Neutral**	The market is fair value. We favour active managers in this sector.
Australian Small caps	**Neutral**	Expensive but opportunities for higher returns / outperformance are available.
Global Equities	**Neutral**	Earnings growth is likely to remain subdued globally. Emerging markets is the preferred region with better than average growth. Non-US equities the better opportunity globally. US Equities remain the most expensive.
US equities	**Negative / underweight**	Valuations are demanding.
European equities	**Positive / Overweight**	Opportunities here. Implementation through active, specialist managers preferred.
Japan	**Positive / Overweight**	Promising. Implementation through active, specialist managers preferred.
Emerging Markets	**Positive / Overweight**	Better than average growth prospects. A cautious approach needed via specialist managers.
Australian Listed Property	**Neutral**	Active management preferred.
Global Listed Property	**Neutral**	Implementation through active, specialist managers preferred. Yield assets globally are expensive, but expect consistent average earnings growth given low supply and interest rates.
Global Listed Infrastructure	**Neutral**	Implementation through active, specialist managers preferred.
Australian Government Bonds	**Negative / underweight**	Remains expensive.
Australian Credit	**Neutral**	Need to be very selective.
Global Bonds	**Negative / underweight**	Remains expensive.
Global Credit	**Neutral**	Need to be very selective.
AUD/USD	**Neutral**	Maintaining neutral level of hedging. We expect the AUD to remain in the 70-78c range long term.

Using today as our starting point and considering evolving trends from global macro developments, our view is that a lower growth and hence lower return environment ('lower for longer') is the most likely scenario.

Overall our analysis and interpretation of this information leads us to the following conclusions:

- The fundamentals are generally supportive for equities but more volatility is expected as interest rates rise.
- Valuations are expensive across the board, but some markets are more attractive than others.
- Sentiment is positive but we generally prefer an active approach to a passive 'indexing' approach in the current environment. A good piece of advice is that when other investors are unworried, we should be cautious and vice versa.

- A lower for longer market environment implies that it will be difficult to get adequately rewarded for risk and that we need to reduce our expectations for high returns. A heavy emphasis needs to be placed on capital preservation and risk control. Patience is also needed as we wait for the markets to correct and offer better opportunities to buy lower down the track.

After a cold and dry winter, we look forward to a quarter with Spring in the air and Summer around the corner!

Philanthropic Giving – Part 2

By Todd Stanford, Senior Financial Planner

In our last newsletter, we mentioned a range of planned giving structures including Private Ancillary Funds (PAFs). We now take a deeper dive into the workings of a PAF.

In summary, a PAF is an efficient, satisfying and tax effective way to put a structure around your philanthropy. It allows a donor to set aside capital to generate investment income for charitable purposes in perpetuity.

What is a PAF?

A PAF is a type of *private charitable trust* established and operated in Australia. It is maintained under a Will or an instrument of trust (e.g. trust deed) under State or Territory law.

Today there are roughly 1,600 PAFs across the country, with 80 - 100 established annually and total net assets valued at over $7 Billion. In the 2013/14 tax year, they gave away $300M.

How is a PAF structured and governed?

A PAF must have a company as the trustee and the company board is usually comprised of family members. It must contain at least one independent director (the 'Responsible Person').

PAFs are normally exempt from income tax and other federal taxes. They are also eligible to receive cash refunds of franking credits. Testamentary gifts made to a PAF also have Capital Gains Tax (CGT) exemption.

A PAF can be endorsed by the Australian Taxation Office (ATO) as a *deductible gift recipient (DGR) Item 2* so can receive tax deductible gifts.

PAFs are governed by ATO Guidelines and have Australian Charities and Not-for-profits Commission (ACNC) compliance obligations.

When would you considering using a PAF?

A PAF can suit individuals, families and companies that:

- Can make use of tax deductible donations
- Want control of investment and grant-making decisions
- Wish to leave a philanthropic legacy in their own lifetime
- Desire to foster in their children their own philanthropic values and sense of financial responsibility
- Wish to provide charitable causes with long term sustainable funding even when their personal financial situations change
- Have at least $500,000 for an initial donation

What must a PAF do each year?

A PAF must make a minimum annual distribution of at least 5% of the market value of the fund's net assets as at the end of the previous financial year, (subject to a minimum of $11,000). A distribution also includes the provision of property or benefits at market value.

Distributions (also called grants) must be made to only DGR Item 1 charities (of which there are over 20,000), never another DGR Item 2 organisation such as another PAF.

There are also several annual administrative and compliance obligations including preparing audited financial statements, the ATO Ancillary Fund Return and lodgment of the Annual Information Statement with the ACNC.

Managing a PAF needn't be difficult. We recommend using a competent PAF administration service such as that offered by Australian Philanthropic Services, to handle all secretariat and compliance requirements.

Donations to a PAF

Donors receive a tax deduction for donations, which can be spread over five years - extending your giving out over a much longer period.

A PAF must be private in nature, so the founder (or related party) can make as many donations as they wish. However the PAF cannot solicit donations from the public. It can however, in any financial year, accept donations from un-related entities (as defined) provided the amount is not more than 20% (in total) of the market value of the

PAF assets as determined at the end of the previous financial year.

It is possible to give property, including cash and shares, to a PAF. Although a gift of property can attract CGT, the taxable gain is often offset by a tax deduction equal to the current value of the property as determined by the ATO.

How are PAFs established?
Expert tax, legal and financial advice is typically required to establish a PAF, however the process is not onerous. The ongoing timing and size of donations should also be subject to financial advice.

A PAF's trust deed must contain specific provisions and be approved by the ATO. The approval process can take several months.

How portable is a PAF?
If you don't have sufficient capital initially to justify the costs of running a PAF, you can open a sub-fund in a public ancillary fund, grow the balance over a few years, and then transfer the funds to a PAF. You can also transfer a PAF into a sub-fund of a Public Foundation if you no longer wish to operate your own structure.

Our experience with PAFs
Our goal is to help people make their philanthropic wishes a reality, and if appropriate, assist them establish a PAF.

We take great professional and personal interest in assisting our clients develop and manage their philanthropic strategies, either stand-alone or as part of a broader financial strategy.

We then prepare and monitor an investment strategy that is compliant with the PAF Guidelines.

If you are interested in finding out more about PAFs, please contact your Profile Financial Planner.

Aged Care – what you should know

By Scott Ungaro, Financial Planner

This article provides you with information about what to expect, once you are Aged Care Assessment Team (ACAT) approved and you have found your preferred aged care home.

Let's look at Aged Care in three phases:

1) The upfront costs: Accommodation Payment

To move into an Aged Care home, you will need to cover the costs for establishing residency in the facility.

One option is to make a lump sum payment, known as a Refundable Accommodation Deposit (RAD). As the name suggests, it is a refundable deposit that will be returned (minus fees and move out costs) to you or your estate once you leave the facility. Most facilities charge a RAD of around $300,000 but the RAD can be any amount up to $550,000 (or higher with government approval).

This can be difficult for some families to pay, so there is an alternative option. You can decide to 'borrow' the deposit from the facility and pay a Daily Accommodation Payment (DAP). The facility calculates the DAP based on the RAD and the government-chosen interest rate (5.73% as at 1 July 2017).

For example, if a facility has a RAD of $300,000 the DAP would be $47.10 per day ($300,000 x 5.73% / 365 = $47.10).

For some families, this is still not possible as they may have insufficient financial assets to pay either the RAD or DAP. Clients with this level of financial hardship, may qualify for 'low-means' care. To qualify as low-means, you are likely to have assets less than $160,000 and receive full age pension. You will then have the option to pay a Daily Accommodation Contribution (DAC) which will be less than your DAP. You should consider if low-means is right for you, as you will not be receiving the nice new room in the facility! Once you are classified as low-means, it cannot be undone, unless you move to a new facility.

2) The daily costs: Basic Daily Fee & Means Tested Care Fee
Now that you have covered the costs for the accommodation, the next phase is covering the costs for care.

The government estimates the cost of Aged Care to be $244.97 per person per day, or almost $90,000 per year. When you consider the full age pension for a single is only $21,071, you can easily see the government is forced to supplement some of the costs for care.

The first cost to be aware of is the "Basic Daily Fee". This is paid by everyone living in an aged care facility. The calculation is government controlled, at 85% of the single person rate of the basic Age Pension, currently $49.07 per day.

The other cost that may apply is the "Means Tested Care Fee". This fee is based on the current income and assets of the resident - the more assets you have, the higher the Means Tested Care Fee. For example, a non-homeowner with approximately $250,000 of assets would pay a Means Tested Care Fee of around $15 per day.

There are online calculators that can assist you in calculating this cost.

There are Annual and Lifetime caps on these costs: the Annual cap is $26,380, and the Lifetime cap is $63,313. However these do not apply to residents who entered care before 1 July 2014.

3) Cashflow & strategy

The final phase of the Aged Care process is funding the ongoing costs. This is an area where a financial adviser can provide great assistance with the many questions that arise. For starters, the most common concern revolves around the family home. How is the home assessed? Does it have to be sold to provide cash flow? Some alternatives might be to release equity in the home, or for the children to help with these costs. Ultimately, the right decisions can reduce fees, increase entitlements, and minimise tax issues. It is also often possible to negotiate deals with providers.

During this phase, we would also encourage everyone to review their wills, especially the estate allocations. For example, if a home was originally gifted to a child as part of their inheritance, but then that home needs to be sold to fund Aged Care, then the will may need to be updated to reflect that change.

In conclusion

Since more people are living longer than ever before, Aged Care is an area that is growing rapidly and struggles to keep up with demand. The government has rolled out a successful Home Care Program that may be an option for some families needing support, but not requiring full aged care service. If you, a family member, or a friend are considering Aged Care, we strongly encourage you to engage a financial planner early. This will equip you with the knowledge and time to make the right decisions for you and your family, rather than being forced to take anything that's on offer at a time of crisis.

Client Profile – Garry Ohlsen

By Aine Love, Marketing Manager

This is a very special client profile, in that it features not only a client but also Profile's founder and part-owner – Garry Ohlsen. In this article Garry shares his reasons for forming Profile, some of his experiences throughout that journey and how retirement is treating him.

Garry started his working life as a bowling greenkeeper in 1969. Not being able to see a long-term future in that role, Garry joined AMP in 1977 selling insurance and superannuation plans. The main motivation for his career change was his strong belief in the importance of families protecting their assets and saving for the future.

Garry points out that both his brother and brother-in-law also started as greenkeepers, going on to achieve a Master's degree in Turf Management and a PhD in Aeronautical Engineering, respectively – resulting in high-profile and interesting careers. Garry says 'Never underestimate a greenkeeper!'.

In those early days at AMP Garry was fortunate to have had a great mentor in his life – Frank Smith - who took Garry under his wing as a young adviser and gave him great guidance during those early days. They remain great friends to this day.

In the late 80s the financial industry started the important process of formalising education standards and qualifications for advisers, which Garry felt was a very positive move for the industry and the community at large. While legislation to protect clients was sadly lacking in those days, Garry is appreciative of how far the industry has progressed in recent years.

It was the lack of legislation and regulation at the time that resulted in Garry's decision to form his own financial planning company 'Profile Financial Services' in 1986. The name was chosen to reflect the prioritisation of the individual client's profile when considering their financial needs - a standard that remains at Profile today. Garry felt very strongly that Profile should control its own destiny, including the products and services it could make available to clients, and in 2002 Profile obtained its own license from ASIC and left the AMP group. Garry says 'I wanted to give people advice that helps them now and in the future, supporting their families and generations to come – not simply recommending products.'

One of the toughest decisions Garry had to make was in retiring from Profile. Ever the planner, he ensured he had a great succession strategy in place, ensuring the respect and integrity to clients was maintained. Garry is very happy with the current board leadership, and the team they have created to maintain that 'client first' principle. Garry quotes Walt Disney who said 'Disneyland will never be completed' – he hopes Profile will continue to grow and achieve great results for its clients. Garry acknowledges how much he misses the client and staff interaction, but admits as technology evolved it was time to hand the reins over and embrace retirement.

What Garry loves about retirement is no longer having to finish a long day at work, then battle with Sydney traffic only to face two hours of technical reading! He and his wife Robyn do a lot of travelling both in their caravan, and also overseas from time to time – but Garry's true love is fishing on his boat. They moved to the Sunshine coast four years ago to escape the traffic and for a quieter lifestyle. While they love

where they are, their only regret is not being able to see their two grandchildren every day, although technology helps quite a bit with this as they 'Face Time' most days to stay in touch.

Garry was diagnosed with throat cancer (though he never smoked) three years ago and underwent major surgery to remove the cancer, resulting in him now having a voice prosthesis. In the following years he was diagnosed with secondary cancer and was given a prognosis of two years – Garry is still going strong and only a few weeks ago was given a good report from his specialist. Garry says 'There are so many people worse off than me, look for the positive and you will have a good day'.

Garry's advice to us all is that the planning he did for himself and Robyn has been crucial to their happy retirement. In joking about the chances of winning the lotto, Garry says he bought himself a winning ticket by starting to save 40 years ago! While it was slow, it has paid off by allowing them to live the lifestyle they want.

Garry's door is always open and he welcomes clients (old and new) to visit him on the Sunshine Coast!

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