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

By Sarah Abood, CEO

Client seminars

We run regular **events for clients** at Profile, and get excellent feedback from attendees!

At our most recent event, the Federal Budget Seminar, we analysed the budget with our clients in mind – what does it all mean for you, as an investor and individual?

If you haven't been to one of our events yet, I urge you strongly to come along if you can next time. You can find out more about events we run on our website: visit http://www.profileservices.com.au/seminars-events/ to find out about recent and upcoming events.

2017 client satisfaction survey now complete

A big thankyou from us to all the clients who took the time to let us know their thoughts, in the recent Client Satisfaction survey! The lucky winner of the $500 travel voucher giveaway was Tim Austin.

These surveys are very important to our business: they let us know how you feel about the services we deliver, and how we can improve. The results (anonymous of course) are also published on the internet, which improves our search rankings and makes it easier for people who are looking for a financial planner to find us.

The 'headline' results this year were very strong, with overall client satisfaction coming in at 8.6 out of 10. We are in the early stages of analysing results, and we will share with you over coming months, the improvements we plan to make in our business as a result of your feedback.

Staff update

We have recently welcomed **Truc Vo** to the Profile team, coming into a new role as Project Manager. Truc will be helping us to implement a number of projects across our business, aimed at ensuring that we grow efficiently and continue to deliver a great client experience. Truc has a very strong background in financial services, having held senior Business Analyst and Business Intelligence roles at Zurich and NAB. Her previous background includes software engineering, consultancy and English teaching roles. Truc is based at our Sydney CBD office.

Investment Update: Objectives-Based Investing 101

By Jerome Bodisco, Head of Investments

Period returns to 30 April 2017 (%)

Asset class*	1 mth	3 mth	1 yr
Australian shares	+1.0	+6.7	+17.8
International Shares($A)	+4	+6.5	+17.0
Fixed interest	+0.8	+1.4	+2.6
Cash	+0.2	+0.4	+1.9
Gold($US)	+1.5	+4.8	-1.9

Although I'm a fairly recent appointee to Profile, I have shared the same philosophy of "Objectives-Based Investing" for well over a decade now! I thought it was worth revisiting what this approach means for clients and why it's important in our current challenging investment environment.

What is Objectives-Based Investing?

Objective-Based Investing (OBI for short) is an investment approach that seeks to align investments and portfolios with the specific objectives of the individual investor. This is very much unlike common industry practice, which typically just matches products to a client's risk profile (that is, their preferred level of volatility).

Why is it important?

OBI recognises that individuals are unique, with needs and objectives that are equally unique and generally more complex than a preferred level of risk alone.

In our experience, not only do clients have several objectives and needs at any one time, but those goals also tend to change over time. Clients want and need investment portfolios and advice that addresses critical matters such as their need for security, an enjoyable lifestyle and a meaningful legacy. They also need those solutions to be flexible and regularly reviewed, recognising that circumstances, markets, priorities and goals are ever-changing.

The advantages? Clients receive an individually tailored solution which gives a greater level of confidence that their portfolio is likely to achieve their own financial goals. The approach also encourages the client to take a greater interest in their financial affairs and to work very closely with their planner through the years. This partnership approach increases the likelihood of success and reduces the possibility of disappointment or regret when markets fall or personal circumstances change.

The role of the planner
The planner must understand their clients' investment objectives, psychology and behaviour, then construct, maintain and make the necessary adjustments to an investment plan over time that delivers to the client's specifications. Success is not about out-performing competitors or the market, but about delivering to the client's goals.

Building an objectives-based investment strategy
Step 1: Objectives come first. We start with identifying a client's multiple objectives, translating them into dollars and specifying the timeframe within which they need to be met.

Step 2: This happens behind the scenes. It is generally impractical to develop a completely unique investment strategy for every possible client goal - so our investment team develops and regularly reviews ideas in 4 investment "buckets". These are scalable solutions that enable us to focus on best of breed products and gain cost efficiencies through scale. Each 'bucket' has a different timeframe and target risk and return:

- **"Foundation" bucket:** This includes an 'emergency' or working capital cash flow reserve aimed at meeting any capital or income needs for the next 3 years. It only invests in assets that are highly liquid (cash, bank bills etc.) or investments that have pre-defined liquidity constraints (term deposits), with essentially zero chance of capital loss.
- **"Preservation" bucket:** This protects the purchasing power of assets from erosion by inflation and capital depreciation over the medium term (3-6 years). We include both income generating and growth assets that aim to deliver a consistent return above inflation. Asset allocation is dynamic, recognising changing market conditions and valuations.
- **"Accumulation" bucket: T**his targets a higher return than the Preservation bucket, over a longer-term horizon (6+ years). Capital preservation is still important but growth is the primary objective, using diversified assets with a stronger tilt towards equities.
- **"Acceleration" bucket:** This one is for investors with a high understanding of asset markets, and a desire to be personally involved with their investments and to access unique opportunities not available to most investors. They must be comfortable with the typically higher risks of these investments. Assets are not allocated to this bucket until a client's essential lifestyle needs have been met via more conservative approaches.

For each bucket, we develop and regularly review a number of investment options that we believe can deliver the required result for different types of client. These include fully implemented solutions, managed funds, and direct securities.

Step 3: Is to construct the investor's unique investment portfolio. This is done by the planner and involves matching the client's unique goals with the appropriate investment bucket, or combination of buckets.

To do this, we look at 4 key elements of the client's objectives:

- When will cash be required? This can be to fund income, or for specific individual goals (such as an overseas trip, business, home or car purchase, gifts to family members and so on). For our not-for-profit clients, investments might be required to support specific charitable works over a number of years.
- What rate of return is required? For clients in the accumulation phase where little or no withdrawal is expected until retirement, we calculate the return needed to hit the goal, taking into account regular expected contributions.
- What level of involvement is desired? Some clients are looking to completely delegate investment decision-making, whereas others are keen to be deeply involved. Different types of investment will be needed depending on this factor.
- What level of risk is the client comfortable with? If a client's tolerance for risk is incompatible with the risk required to achieve their goals, it will cause problems down the track!

Importantly, this process is re-run at least yearly for our clients. No effective plan is static and we must take account of clients' changing goals and needs, and changes in markets.

Conclusion

Profile's approach to investing puts our client's objectives first. We construct tailored portfolios and solutions that have a high probability of meeting your goals – rather than trying to beat competitors or indexes. We believe strongly that this approach delivers investment outcomes that are in the best interests of our clients.

Philanthropic giving

By Todd Stanford, Senior Financial Planner

For many of my clients, philanthropy is an important element of their financial plans. It's an opportunity to create a legacy, and have a hand in making the world a better place. I'll be writing a series of articles looking at this topic, and at strategies for clients to ensure their giving has the greatest possible impact on the problems they want to solve.

Introduction

Australia is traditionally a giving nation. We have a deep-seated code that everyone is entitled to a 'fair go', and we rally together to support those less fortunate (e.g. just recall natural disasters such as bush fires, cyclones or tsunami). Many of us donate to a charity on a regular basis. Others make ad-hoc donations to various charities when approached (e.g. Red Cross door knock appeal).

You don't have to be wealthy to be philanthropic. Many people give little or no money but rather volunteer their time and expertise in their local community or to a charity.

What is Philanthropy?

According to Philanthropy Australia, it is 'the planned or structured giving of money, time, goods and services or other to improve the well-being of humanity and the community'.

Often, it is an evolutionary process that whilst structured in nature has an exploratory side to it before an individual finally gravitates towards a core charitable preference.

In Australia there is still often discomfort in talking about giving and there is very little everyday discussion or press on the topic, except for the odd article on major donations (such as Andrew Forrest's recent $400m donation). As such Australia's philanthropic sector is still very much in its infancy.

Philanthropy today

The latest Charities Aid Foundation 2016 World Giving Index ranks Australia third in the World, with 73% of Australians making a charitable donation. By five-year average Australia ranks fifth in the World behind Myanmar, USA, NZ and Canada. So on a per capita basis we are actually a pretty generous nation.

However, levels of structured giving here are still below those in other countries such as the United States and the UK. Many Australians share the view that they pay their taxes to the Government so it is firstly the government's role to look after those in need. So 'we just don't have that psyche or culture in Australia where the individual fees they're personally responsible'[1].

This is evidenced in the latest Australian Taxation Office (ATO) tax return lodgement statistics where overall only 35% of individual taxpayers claimed a charitable donation[2]. The statistics also show the higher your taxable income the more likely you are to give. For example, 58% of those earning over $500,000 in taxable income claimed a donation.

The ATO statistics also show that of the people who could make donations via a structured workplace giving arrangement, just under 5% did so (however this has been on the rise in the last few years).

Well known philanthropists

Our well known philanthropists include Andrew & Nicola Forrest, James Packer, Gretel Packer (James's older sister) and the late Paul Ramsay, who left more than $3 billion to charity (the largest bequest in Australian history) to The Paul Ramsay Foundation. There are many other philanthropists who choose to remain anonymous.

The top philanthropists in the world are Bill & Melinda Gates (Microsoft) followed by Warren Buffet (Berkshire Hathaway) who in 2006 vowed to donate 85% of his wealth to the Bill & Melinda Gates Foundation, as well as other foundations set up by family members. Other significant philanthropists include George Soros (Soros Fund Management), Chuck Feeney (Duty Free Shoppers Group) and more recently Mark Zuckerberg (Facebook) who established a foundation with his wife Pricilla Chan in December 2015.

In 2011 Buffet partnered with Gates in creating the Giving Pledge (https://givingpledge.org/) inviting the world's wealthiest individuals and families to commit to giving more than half of their wealth to philanthropy either during their lifetime or in their Will. Andrew & Nicola Forrest were the first Australians to sign the Giving Pledge.

Motivators for giving

Giving is very personal and everyone has different motivators, moulded by their personal journeys in life. Often reaching a turning point such as selling a business, receiving a large inheritance or the kids leaving home were the trigger.

UBS classifies philanthropists into the following categories:

- **Communitarians** – like to help their local community.
- **Devout** – feel a religious or spiritual motivation (or obligation) to give.
- **Investors** – in search of tax benefits.
- **Re-payers** – former recipients who have enough and want to give back to society.
- **Altruists** – selfless donor.
- **Dynasts** – giving is a family tradition and establishes a family legacy in perpetuity.

- **Socialites** – enjoy fundraising events and being part of a community who share similar values.

Another motivator for giving in a structured manner is that it provides a platform to pass on family values from one generation to the next. It can enhance and cement family values, to be carried into the future. The Warren Buffet notion that 'leaving children enough money so they feel they can do anything, but no so much that they could do nothing' was a widespread value shared by respondents in the study undertaken by QUT[1].

For some people, a sense of guilt about their level of wealth can be a motivator, as can gratitude for having been given opportunities and encouragement to succeed that are denied to many.

Ways to give
Giving can be un-planned (i.e. personal donations) or planned (through a philanthropic structure). Planned giving is also called 'structured giving'. Taking the leap to structured giving can appear daunting but there are good sources of advice available.

Characteristics of structured giving are - it is 'often larger, more consistent, better researched and more engaging in ways beyond money – so more satisfying'[1]. It is focused on a narrower range of activity with the goal of greater outcomes.

Examples of planned giving structures include:

(1) **Charitable Foundation** - Private Ancillary Funds (PAFs), Public Ancillary Fund or Charitable Trust

(2) **Community Foundations** – sub-funds, giving circles

(3) **Corporate Foundations –** company (via board) drives decisions and staff can donate.

A private charitable trust or 'PAF' provides the most control over grant making decisions - and is very 'hands on'. It can be 'seen as a personal statement, even if only visible among a close-knit group'[1]. To justify the ongoing administration costs, a private trust or PAF is recommended to have capital of at least $500,000. Otherwise, donating to a Public Ancillary Fund or a community sub-fund may be more effective.

There are many options within Australia's philanthropic landscape to generally meet most people's needs and preferences. A study by the Queensland University of Technology in March 2012 concluded that in Australia structured giving is 'a kaleidoscope – the sheer variety of structures, approaches and activities is significant'[1].

Our next article will dive into PAFs in more detail. Introduced in 2001, PAFs now attract nearly 20% of all deductible gifts and are the favored giving vehicle used by wealthy Australians.

References

[1] *Foundations for Giving: Why and how Australians Structure their Philanthropy",* QUT Business School – The Australian Centre for Philanthropy and Nonprofit Studies.

[2] *Taxation Statistics 2013-14,* Australian Taxation Office

Superannuation – Outlining the 1st July 2017 changes

By Scott Ungaro, Financial Planner

Although this year's federal budget made very little change to superannuation, last year's by contrast was a doozy! Major changes were introduced last year, many of which are effective 1 July 2017. In this article I run through those changes and who they might affect. If you have any concerns and haven't yet spoken to your planner, please ensure you do so ASAP!

Concessional contributions (before-tax)
'Concessional contributions' are the contributions employers make on your behalf or that you salary sacrifice; or in the case of self-employed Australians, personal contributions that you claim a tax deduction on. They are known as 'concessional' because you pay a concessional tax rate on these contributions, rather than your marginal tax rate (which is often higher). The concessional tax rate is 15% if your income is under $250,000, and 30% if your income is over this amount.

From 1 July 2017, the annual maximum cap will be reduced to $25,000. This reduces the current limit by either $5,000 or $10,000 per year (depending on your age.)

Balancing this negative change, a positive change is due to come into effect from 1 July **2018**. This is the ability to 'catch-up' on missed concessional contributions for the previous five years, for those with balances of less than $500,000 in super. This can potentially save clients thousands of dollars in tax and we are developing a number of strategies for our clients to take advantage of this.

Non-concessional contributions (after-tax)
Before the reform, working Australians were allowed to contribute up to $180,000 per year in non-concessional (or after-tax) super contributions - or, in special circumstances $540,000, by triggering a 3-year 'bring forward' rule. The reforms have reduced the annual cap to $100,000 per year, but leave intact the ability to 'bring forward' 3 years' worth of contributions.

Spouse superannuation tax offset
Another noteworthy change is the improved spouse tax offset. This lifts the income limit to qualify for the maximum benefit, from 1 July 2017. You will be able to receive an 18% tax offset (worth up to $540) for contributing to your spouse's super, if your spouse earns less than $40,000 (previously $13,800) per year. The increased earning cut-off limit should help over 5,000 Australian families take advantage of this benefit to increase their retirement savings.

Earnings tax on pension accounts
By far the greatest area affected by the super reforms relates to pension accounts. Prior to the reforms, there was no limit to the size of a super balance. However from 1 July 2017, a "transfer balance cap" will be imposed, which caps the amount of money clients can move to the pension (or tax free) phase at $1.6 million (this amount will be indexed in $100,000 increments).

If you think this change may impact you, it's important to act soon. There are strategies that we can help you with to reduce the impact (such as equalising a couple's total super balance), however planning ahead is critical to ensure you allow enough time to manage the impact.

Transition to retirement
This was one of the more unfavourable super reforms, and it applies to those under the age of 65 and still working. The Transition to Retirement Pension strategy allows Australians who have reached Preservation Age (55-60 years of age depending on their date of birth) and who are still working, to access their superannuation. These were treated as Pension accounts and previously received the same favourable tax treatment as a normal pension account with 0% tax. However the reforms have removed the favourable tax treatment for Transition to Retirement Pensions, so that they are subject to the same tax rates as accumulation accounts (a maximum of 15% tax on income and 10% of capital gains).

These changes affect many professionals and we strongly recommend you speak to your financial planner soon regarding how they may affect you.

Client Profile – David Evans

By Aine Love, Marketing Manager

'Service to others is the rent we pay for the life we lead'.

Camp Lionheart
FOR THE CHILDREN'S HOSPITAL AT WESTMEAD

David Evans has always been a man with a Lion's heart!

He and his wife are blessed with 4 children and 13 grandchildren and love to travel when they can. Born in Lithgow, David is the eldest of five. He sadly lost his sister to cancer but his brothers are all still living in the Central West region. David did his schooling in Lithgow and then started working in the Rural Bank of NSW in Lithgow.

During the height of the Vietnam war, he was influenced by the recruiting offer 'to see the world' and joined the Navy (in July 1966). He thus became the first person in his family to wear a uniform – his father (a miner), grandfather (a traindriver) and uncles (dairy farmers) were all in protected industries that were needed at home to keep the war efforts running.

David spent 45 years with the Navy in total. In April 1967 he made his first trip to Vietnam. His role was radio and radar maintenance. While he didn't go on land in Vietnam, he was involved in dropping troops off and picking them up and remembers the marked difference in the men being brought home.

Later, the Navy sent him to college in Western Australia where he changed direction again and became a trainer until 1993. At the age of 47, David was deemed 'too old' and discharged (reluctantly from his perspective!), at which time he joined the reserves where he remained for a further 18 years.

Having been a member of the Lions Club in Melbourne, when David and his family moved to Sydney in 1978 they sought out the local club in Carlingford/ Dundas - of which club Garry Ohlsen (owner and founder of Profile) happened to be the president! The two families became friends and forged a strong relationship, and many years later Kurt is now David's financial planner – he remembers Kurt as a baby!

The Lions Club is an international foundation that has been going for nearly 50 years. I asked David to explain a little more about what the Lions Club does. He says, 'Essentially what we are trying to do is change lives'. When he joined the club in Victoria, it was a country location and it was much easier to provide physical services to the local community such as lawnmowing, wood chopping etc.

On moving to Sydney, David found there was less need for those types of services. It was no longer as simple as turning up to help someone repair a deck, due to more restrictive regulations.

Fundraising is now a big part of The Lions Club activities. Since 1968 they have given over $1 billion to charitable projects around the world, such as restoring earthquake-ravaged areas. In a current project, they are working with the Bill and Melinda Gates Foundation and the UK Government, to eradicate measles. The club was tasked with raising $30 million towards this initiative, which the foundation and government will match.

The Lions Club is always looking for projects they can help to support the community, one of which is Camp Lionheart. About 15 years ago one of their members had a son who was badly smashed up in a car accident. His baby sister died in the accident and the son was left with severe brain damage. The devastated mum suggested the club could help with the rehab section of Westmead Children's hospital. Camp Lionheart was created as an independent charity to support the children at Westmead, with sponsorship at the time from Heartland Holden and Carlingford/Dundas Lions club (hence the name Camp Lionheart).

David was president of Camp Lionheart in 2014, and was invited to a function by the hospital where the club was recognised as benefactors for donating over $300,000 to the Westmead Children's Hospital.

Camp Lionheart believes that children with disabilities deserve to live as normal a life as possible, and it is devoted to fundraising to facilitate that. The fundraising pays for disabled kids to do activities like canoeing, archery, sailing and more. Parents also start to realise that their kids can achieve more than they could ever have hoped for!

They also consider the siblings' challenges, such as the 'what about me?' syndrome – a kid with a physical impairment can impact the mental health of any siblings who constantly have to take a back seat.

The main challenge Camp Lionheart faces is raising the funds needed to create the support and capacity to provide these services. It costs to pay for staff, transport, and special equipment, all things a lot of us take for granted.

If you would like to help Camp Lionheart, you can donate via: http://www.camplionheart.org.au/ . If you would like more information or are considering a regular commitment, you can contact David directly on 0424 728133.

We really admire David for his wonderful commitment and contribution to the community.

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