Wealth Adviser

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How to boost your retirement savings as super and tax laws change

INSIDE

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If you're looking to maximise your superannuation, it's a good idea to be up to speed on any legal updates that could affect the super and tax landscape.

With super caps going up and tax cuts coming in, there are some big changes on 1 July 2024 that could help you boost your retirement savings.

Here's how it's all going to work.

Super caps are going up...

There are annual caps - or limits - on how much money you can contribute towards super, both in terms of pre-tax 'concessional' contributions and after-tax 'non-concessional' contributions.

BEFORE YOU GET STARTED

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We encourage you to seek professional financial advice before making any investment or financial decisions.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

Both these caps are going up, so if you have any spare funds you'll be able to move more of your money into super's low-tax environment.

- The concessional cap is increasing from $27,500 to $30,000 a year.
- The non-concessional cap is increasing from $110,000 to $120,000 a year.

Time to tweak your salary sacrifice plan

For PAYG employees, the compulsory SG will go up by half of a percent to 11.5% from 1 July. While the annual concessional contribution cap will increase to $30,000, allowing more salary to be sacrificed into super, the increase in SG rate will reduce some of that additional capacity to salary sacrifice. So it is good time to review your existing salary sacrifice arrangement with your employer.

How to play catch up with your super

There are special rules that allow you to pay even more into your super - useful if you're playing catch-up before retirement.

With concessional contributions if you have less than $500,000 in your super on 30 June of the previous financial year, you can carry forward unused amounts from up to five previous years. So if you didn't contribute the full amount in 2018-19, this is your last chance to use any unused amounts from that financial year - the opportunity will expire on 30 June 2024.

How to make large contributions to your super

With non-concessional contributions if you have less than $1.66m in your super on 30 June 2024, you can bring forward three years of contributions up to $360,000. The higher annual cap means the total amount you can tip into super using the bring-forward rule has increased from $330,000 to $360,000.

The rules can be a bit complex so if you come into a windfall from selling an asset or receiving an inheritance, it's worth chatting to a financial adviser about the best way to increase your retirement savings.

...and tax cuts are coming in

The Government's long-awaited 'stage 3' tax cuts are coming into effect on 1 July 2024. While there have been well-publicised changes - lower income earners will receive a higher cut than originally proposed, while higher income earners will receive a lower cut - the bottom line is that all personal income taxpayers will pay less tax.

YOUR TAX CUT FROM 1 JULY 2024

Taxable income	Tax payable 2023/24	Tax payable 2024/25	Tax cut
$40,000	$4,367	$3,713	$654
$60,000	$11,067	$9,888	$1,179
$80,000	$18,067	$16,388	$1,679
$100,000	$24,967	$22,788	$2,179
$120,000	$31,867	$29,188	$2,679
$140,000	$39,667	$35,938	$3,729
$150,000	$43,567	$39,838	$3,729
$160,000	$47,467	$43,738	$3,729
$180,000	$55,267	$51,538	$3,729
$190,000	$59,967	$55,438	$4,529
$200,000	$64,667	$60,138	$4,529

Source: https://treasury.gov.au/tax-cuts/calculator

So before 1 July 2024 when you're still paying a higher rate of tax, you might like to think about bringing forward any tax deductions by:

- making personal deductible contributions to your super using any unused amounts from 2018/19
- prepaying any deductible expenses such as income protection premiums and investment loan interest where possible.

And then after 1 July 2024 you'll be paying a lower rate of tax. So you might like to think about deferring any income from:

- selling an asset that generates a capital gain
- receiving an employment termination payment or leave entitlement
- applying for a First Home Super Saver Scheme release
- making a taxable super withdrawal, such as total and permanent disability under age 60.

The good news is that if you're a taxpayer you'll have more disposable income that will help soften some of the cost-of-living pressures we're facing.

If you're lucky enough to have some spare funds, you might like to talk to a financial adviser about ways to utilise the additional disposable income, which may include paying down non-deductible debt and/or boost your super in terms of salary sacrificing before tax or after-tax contributions.

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Uranium and the fear of running out

BY PLATINUM ASSET MANAGEMENT
Republished from firstlinks.com.au

The laws of supply and demand have an inevitability to them and recent moves in the uranium market are another reminder of their power. Back in September 2023, uranium was selling at around US$50 a pound. As we write, that price has moved to $US91/lb.[1] In this article we look at the supply and demand dynamics underpinning that rise.

Bottomed out

For over a decade, the uranium market has been plagued by excess supply, low prices and negative sentiment around nuclear power. Between 2014 and mid 2021 for example, prices hovered around US$30/lb. For context, it last peaked at US$136/lb in 2007.

On the demand side a number of factors kept the main buyers – utility companies - from paying up for the radioactive metal.

- High levels of global inventory and product availability.
- The progressive retirement of Japan's nuclear fleet post the Fukushima tsunami. Before 2011, nuclear accounted for 30% of Japan's energy. By 2019 Japan's nuclear energy output had fallen by 75%.
- Anti-nuclear sentiment in Europe drove a nuclear phase-out in many countries (notably Germany).

Meanwhile, the supply of uranium was increasing, largely thanks to low-cost production from Kazakhstan. With plentiful supply and cratering demand, energy utilities were able to buy uranium at low 'spot' rates rather than contracting for long-term supply. The uranium price fell briefly below US$20/lb.

At sub US$30/lb, many uranium mines became uneconomic and were placed into 'care and maintenance'.[3] That led to a dramatic fall in mined production.

Something changed

In the early 2020s the supply/demand dynamic changed and the uranium price made two dramatic jumps, leaping from $US30/pound to $US50/pound in 2021 and $US50 to $US100/lb in 2023. What's behind this shift?

- The emergence of uranium 'trusts'. These vehicles buy physical uranium, thus removing excess global uranium inventory from the system.
- An improving demand outlook driven by a resurgence

in nuclear power. China's annual uranium demand is expected to nearly quadruple to over 40,000 tonnes per year by 2040.
- Japanese reactor restarts, life extensions for ageing plants and development of new technologies (such as small modular reactors). These are all incrementally positive for uranium demand.
- Sustained supply deficits, with long lead times to develop new supply.
- The self-sanctioning of Russian material after its invasion of Ukraine put further strain on an already underprepared nuclear value chain.

Underpinning all these factors is the increasing realisation that nuclear power could be key to decarbonising energy. Nuclear provides reliable baseline power and, unlike fossil-fuel fired power plants, nuclear reactor lifecycle carbon dioxide emissions have a profile on par with renewables.

In essence, there's been a huge supply/demand switch and for the first time in the history of the uranium market as we know it, we may see a sustained shortfall of available supply - and it's beginning to be reflected in the price.

Source: Trading Economics

That's why uranium is now a key portfolio theme for the Platinum Global Transition Fund[2] (Quoted Managed Hedge Fund) (ASX:PGTX) - a fund specifically designed to provide capital growth over the long term by investing in undervalued companies that are seeking to financially benefit from the transition away from fossil-fuel derived energy and goods production and consumption i.e. the carbon transition.

In the midst of this major market shift, PGTX added four uranium stocks to the portfolio - Cameco and the Sprott Physical Uranium Trust (SPUT) from Canada, Kazakhstan's Kazatomprom and Australian developer Paladin Energy.

These four stocks have very different - and somewhat complementary - characteristics.
- The Sprott Physical Uranium Trust owns physical uranium and gives pure exposure to upside in the uranium price.
- Cameco is a large, high-quality producer that provides exposure across the nuclear fuel cycle.
- Kazatomprom is the largest upstream producer of uranium. It's a dividend paying stock, valued at a discount to its peers.
- Paladin Energy is a late-stage development company that provides exposure to near-term production and so favourable exposure to market pricing.

Buyers who look past the price

Whilst supply and demand fundamentals drive markets, buyer behaviour is also crucial. Indeed, understanding the behavioural element in markets is core to our investment philosophy.

Tellingly, the prospects for further strength in the uranium market are improved by the buyer behaviour of the big energy utilities. Constrained supply means these buyers can no longer look to source uranium in the spot market. They're now looking for the supply certainty of long-term contracts.

Utilities are now genuinely concerned about lack of supply and that means they could start looking 'past the price'.

For them, a US$20/lb move in the uranium price equates to a roughly $1 per megawatt-hour (MWh) increase in fuel cost for their reactor. That won't change their behaviour given the importance of keeping the reactor running and especially in the context of the huge capital cost of their plants.

Given the depth of the current supply issues - and the fact it could take until 2030 or beyond for meaningful new supply to come on stream - these conditions could last for years.

Today, we've got a market driven by price-inelastic buyers who are motivated almost solely by supply worries - literally by fear of running out. That could see very high prices sustained for a number of years. And that's good news for companies in the uranium sector.

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[1] Source: Factset Commodities as at 08/03/2024

[2] The Platinum Global Transition Fund invests in undervalued companies from around the world that are seeking to financially benefit from the transition away from fossil fuel-derived energy and goods production and consumption i.e. the carbon transition

[3] When mines temporarily stop producing but the infrastructure and machinery is maintained and environmental risks managed.

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Is now a buy-low opportunity for private real estate?

EXECUTIVE SUMMARY

- Potential benefits of investing in private real estate include diversification, competitive returns, relatively low volatility and income-generating capabilities.
- We believe that private real estate is currently near the bottom of a market cycle, presenting a potentially compelling buying opportunity for some investors today.
- Specifically, we think that the positive growth trends in some sectors of private real estate—including industrials, apartments and specialty sectors such as data storage and healthcare—when combined with the right active management approach, could allow for potential outperformance.

BY ADRIANNA GIESEY

Republished from russellinvestments.com.au

When it comes to the private real estate sector, the mention of the U.S. commercial office sector scares many investors away. While the office sector may give some investors pause, it's also prudent to look at the bigger picture, especially when that picture may conclude that private real estate is near the end of a market cycle and may hold significant investment opportunities.

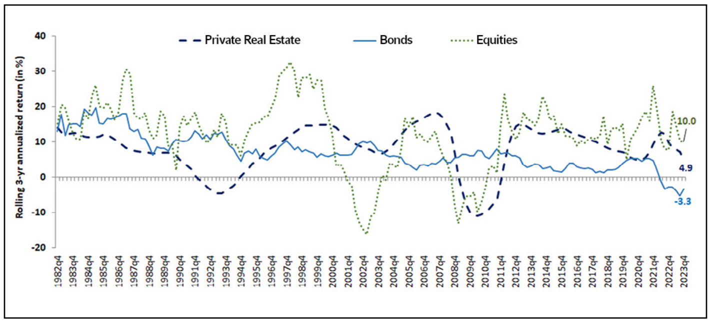
No matter where we may be in a market cycle, we believe private real estate has a role to play. Let's examine the potential benefits it can bring to a portfolio.

- **Diversification** - Diversification remains the fundamental reason for including private real estate. This is truer now than ever before, as the property types within the real estate sector are also more diversified. More on that later. Unlike stocks and bonds, private real estate also tends to lag the economy.
- **Competitive returns** - Returns on private real estate tend to fall between the returns of stocks and bonds. Over the last 25 years, private real estate has had an average annualized return within the 7-9% range (Source: Russell Investments; Real Estate is measured by the NFI-ODCE Value-weighted Index, using total returns).
- **Relatively low volatility** - Private core real estate's quarterly appraisal process reduces volatility, which tends to settle out somewhere between that of stocks and bonds, at least over the last two decades. Returns are comprised mainly of income and some capital appreciation driven

by income growth. In addition, leverage levels for core private real estate (defined as fully leased multi-tenant properties) tend to be lower than the average U.S. REIT (real estate investment trust).

- **Income-generating capability** - Private real estate's contractual lease obligations-binding contracts that ensure tenants pay rent, even if the space is vacant-help stabilize returns.

Private (unlisted) real estate versus equities and bonds

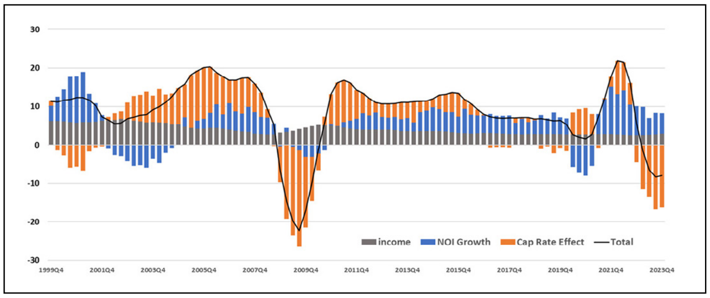


Source: Russell Investments

Is private real estate a good investment right now?

It's not a secret that real estate has struggled in recent history. According to GreenStreet Advisors, the private real estate sector has seen a 20% decline over the last six quarters. But let's look at the NOI. Net Operating Income (NOI) is the commonly used figure to assess a property's profitability. We've seen strong NOI growth during that same six-quarter period, helping sustain total returns.

Unlevered real estate returns (trailing 4 quarters) through December 31, 2023



Source: NCREIF Property Index Trends Report, PGIM and Russell Investments

Another positive indicator for this sector comes from the listed real estate market. Private real estate tends to lag listed REITs by about a year. Share prices on REITs have returned, which is a strong indicator that private real estate should also return. (Another positive note worth mentioning: Because private real estate tends to lag, in theory, it comes with a bit of built-in predictability.)

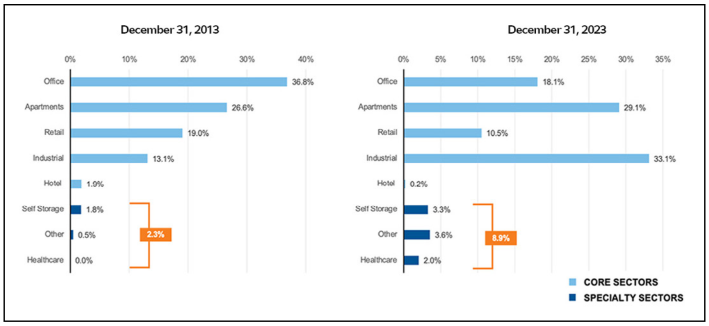
We expect some additional modest write-downs in the coming quarters. However, because it is very difficult to time market swings, many savvy investors buy the trough instead of trying to time the precise bottom of the market. We believe that private real estate is in that trough right now. For some investors, the timing may be right.

An expanded opportunity set

Another key factor that makes us bullish on private real estate is that the sector has expanded, allowing for more diversification and specific return opportunities within the sector. In 2013, the office subsector used to dominate the space, at 36.8% of the assets. In 2023, that sector dropped into third place, trailing industrial and apartments. The office category still gets all the headlines but is no longer the dominant force.

Another subsector trend that has us particularly excited is the growth of specialty sectors, such as data storage and healthcare, among others. In 2013, these subsectors held just 2.3% of the assets, but that number grew to nearly 9% in 2023.

The 21st century real estate market
Specialty sector exposures



Source: NCREIF ODCE (National Council of Real Estate Investment Fiduciaries) as of December 31, 2023.

Why active management matters in private real estate

We believe many managers and funds do not pay enough attention to these specialty sectors. However, a growing number of private funds focus on this market segment. We believe it may be possible to outpace the index by overweighting these sectors. Of course, this depends on choosing the right managers who understand asset management's role in creating value for investors.

In conversations with our clients and prospects, many are surprised to learn that even in this relatively bleak environment, the office sector is at an approximately 90% occupancy rate (Source: NCREIF Property Index Trends Report). On the negative side, we are only at a 50% office utilization rate (Source: Kastle Systems), meaning that while the space is leased, it may not be in use. The conclusion is that this will be bad news for those funds and managers who are heavily loaded with lower-quality assets but may benefit managers who specialize in compelling, class-A space. This is another reason that active management is a key factor when it comes to success in this sector.

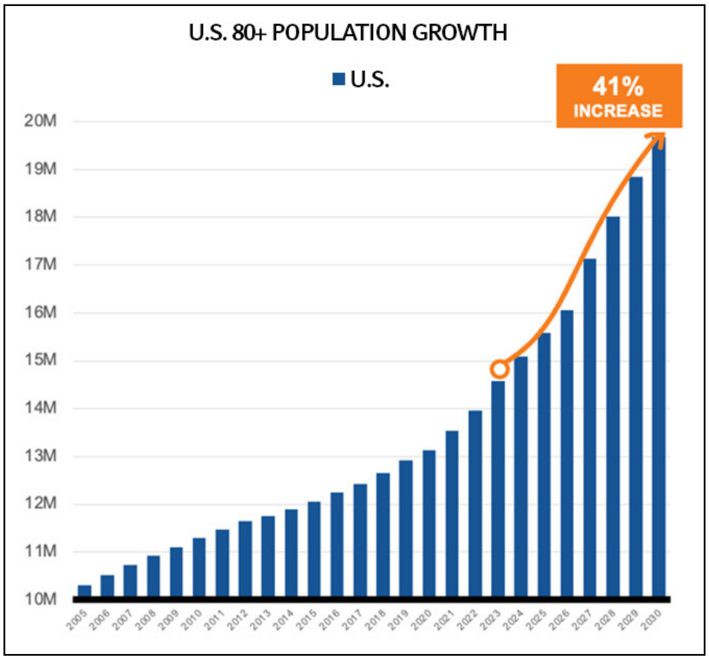
The uncertainty of office vs. the relative certainty of supply and demand

The natural question is: What will happen with all the unused office stock? The honest answer isL No one really knows yet. We believe this uncertainty about this single subsector has caused too many investors to shy away from the entire private real estate sector. Remember that office is only 18% of the sector, and that number will likely decrease.

If we right-size the impact of office, the holistic picture is quite positive due to the fundamental supply/demand picture. For the real estate sector as a whole, construction essentially dropped off a cliff when the Fed began tightening in 2022.

We've seen this, especially in the senior housing sector.

Senior housing: Accelerating 80+ population growth



Source: U.S. Census Bureau

The U.S. Census Bureau predicts a 41% increase in the 80+ population between 2023 and 2030—a staggering number. At the same time, senior housing starts fell off during COVID, when the idea of group living situations seemed untenable. Post-COVID, we have rapidly accelerating demand and insufficient supply, supporting the landlords' abilities to push rents within the sector.

We see a similar situation in technology; the infrastructure needed to support the digitization of the economy across industries is contained in self-storage. The roll-out of AI (artificial intelligence) more broadly represents a new and, perhaps, dominant source of leasing demand going forward. Public cloud computing companies and AI are some of the largest self-storage tenants and account for a growing share of overall leasing activity. Vacancy remains tight due to lack of supply and power constraints, once again leaving pricing power in the hands of the landlords with existing stock.

The bottom line

The case for private real estate is compelling. We are not necessarily recommending that investors try to time the market, but we do believe we are at or near the end of the current market cycle in this sector. The broader set of real estate subsectors provides an additional layer of diversification if the right managers are brought to bear. With the proper guidance and the right active-management approach, we believe it is a reasonable time for investors to rescind redemption requestions and add to their allocations within the private real estate space.

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Q&A: Ask a Question

Question 1

My friend told me that there are two types of Power of Attorney's: General and Enduring Power of Attorney. What is the difference between the two?

An enduring power of attorney (EPOA) and general power of attorney (GPOA) are legal documents that delegate financial decision-making authority to another person. An EPOA remains valid even if you become mentally incapacitated, granting your attorney authority over financial and legal matters indefinitely. This makes EPOAs essential for long-term planning as it provides protection in situations where you may lose mental capacity and ensures that someone can manage your affairs effectively.

In contrast, a GPOA is temporary and automatically revoked if you become mentally incapacitated. It grants your attorney authority over financial and legal matters for a specified period or specific circumstances. It is commonly used for short-term arrangements such as managing finances during travel. While GPOAs offer flexibility for temporary needs, they do not provide protection in the event of long-term mental incapacity. This highlights the importance of choosing the appropriate power of attorney based on your individual circumstances and planning needs.

We recommend you speak with your financial adviser about putting in a suitable estate plan for your situation.

Question 2

I have life insurance which I hope will never be claimed, but I'm curious about what the process is for claiming life insurance in the case that I do pass away. What is the process of claiming life insurance?

The process of claiming life insurance involves someone notifying the insurer of your death, submitting claim forms along with required documentation such as the death certificate, and undergoing an assessment and possibly an investigation to validate the claim. Once the claim is approved, the insurer arranges for the payment of the life insurance benefit to your beneficiary named in the policy. If the claim is denied or disputed, your beneficiary may have the option to appeal the decision through the insurer's internal dispute process. It's important for claimants to adhere to the specific procedures outlined by the insurer and seek assistance from financial or legal professionals if needed.

Question 3

I have a friend who was recommended by a financial adviser to invest in managed funds, while I was recommended by my financial adviser to invest in Separately Managed Accounts (SMAs). What is the difference?

Separately managed accounts (SMAs) and managed funds are two distinct investment structures tailored to meet different needs. SMAs offer a personalised approach, where you directly own the underlying securities in the portfolio, allowing for greater transparency and customisation. Managed by professional investment managers, SMAs enable you to tailor your investments to individual preferences, including tax considerations and ethical criteria, while maintaining control over the timing of capital gains and losses.

Conversely, managed funds pool your money together to invest in a diversified portfolio of assets managed by a professional fund manager or team. It involves you purchasing units in the managed fund, granting the fund manager discretion over investment decisions on behalf of all investors. While managed funds offer diversification and access to professional management expertise, investors have limited visibility and control over the specific securities held in the fund's portfolio. Despite this, managed funds provide economies of scale and convenience, making them suitable for investors seeking diversified investment exposure without the need for active management. Ultimately, the choice between SMAs and managed funds hinges on your preferences, investment objectives, and desired levels of customisation and control, which your financial adviser has considered when making their recommendation to you.

If you have a question that you would like to see answered in **Wealth Adviser**, please send it through to **centraladvice@wtfglimited.com.**