sixpark

April 2017

The Game Has Changed

How technology is disrupting the Self-Managed Superannuation Fund industry

Foreword

At Six Park, our mission is to provide a better way for Australians to invest.

Our investment philosophy is simple: We believe the two most important aspects to successful investing are to:

- Focus on your asset allocation, and
- Keep your investment costs low

At Six Park, we combine our highly automated online investment service ("Robo-Advisor") with a team of experts who, collectively, have more than 200 years experience in the financial service and investment management industry.

For this reason, we like to call our service "Robo Plus" and we believe Six Park offers the best value-for-money investment management service in Australia.

With regard to Self-Managed Super Funds (SMSFs), we have seen the emergence of low-cost administration services that have changed the landscape of SMSFs. Six Park is not licensed to provide advice with regard to the suitability of an SMSF for your situation, but we do believe that Australians should be aware of the facts that now shape the SMSF market.

In this report, we explain how technology and automation have impacted the ability to set up an SMSF to get established and build a diversified portfolio of investments.

In this report, you will learn the following:

1. Automated services have reduced the cost of setting up and investing in SMSFs, potentially making SMSFs viable for a larger number of people
2. For existing SMSF trusts that are poorly diversified, there are innovative, low-cost investment services that can enable both small and large investors to get prudent diversification much easier than in the past

I am pleased to share "The Game Has Changed" with you, and thank you for taking the time to read it,

Patrick Garrett
Six Park Chief Executive Officer & Co-Founder

About Six Park

Six Park is a leading provider of automated investment guidance (also called "robo-advice") in Australia. Through its innovative online platform, Six Park provides investors with simple and streamlined access to cost effective, globally diversified, professionally-managed portfolios tailored to their risk profile.

A key differentiator of the Six Park offering is the expertise of the Company's team, who have more than 200 years of collective investment and asset management experience with some of the world's leading financial institutions.

The team is led by a pre-eminent Investment Advisory Committee comprising Lindsay Tanner (former Federal Finance Minister), Paul Costello (former Future Fund CEO) and Brian Watson AO (former Chairman of JP Morgan Australia). This team provides a unique human overlay to the Company's sophisticated automated investment technologies.

We call this **"Robo Plus"**.

The Six Park Investment Advisory Committee (from left to right): Paul Costello, Brian Watson AO and Lindsay Tanner with Six Park CEO, Patrick Garrett

If you have decided to create an SMSF, Six Park's Robo-Advice service and our SMSF partner's set-up and administration service provide a smart, low-cost way to get set up and invested.

SMSF set-up[1]

- ✓ Easy to apply
- ✓ Trust Deed and legal documents
- ✓ Auto registration/TFN/ABN
- ✓ Help with rollover
- ✓ Help with insurance
- ✓ Macquarie Cash Management account.

SMSF ongoing administration[1]

- ✓ Financial/Member/Operating statements
- ✓ Tax lodgement
- ✓ Audit
- ✓ Compliance.

Six Park robo-advice

- ✓ A smart, low-cost way to invest for long term
- ✓ Asset allocation advice and diversified portfolio of ETFs
- ✓ You select how much of SMSF to invest with Six Park
- ✓ Rebalancing and ongoing portfolio management to ensure your strategy remains suitable over time
- ✓ No brokerage costs or hidden fees
- ✓ World-class team of investment experts with 200+ years experience
- ✓ Unaligned with bank, trustworthy, transparent
- ✓ Investment and cash held in your fund's name, easily accessible
- ✓ Online tracking of investments and performance from any device 24/7
- ✓ Investment Management pricing 0.5% or less.

To find out more, visit www.sixpark.com.au.

1 Provided via our SMSF set-up and administration partner.

Important disclaimer

This brochure does not constitute advice as it relates to an SMSF. Before deciding to pursue an SMSF, you need to carefully assess whether an SMSF is suitable for your personal and financial situation. Although the low-cost, highly-automated services described herein may be suitable for certain circumstances, we recommend that specialist advice and assistance be obtained if you require advice on setting up an SMSF.

Six Park is not authorised to recommend SMSFs to you - this white paper serves as a fact sheet about SMSFs, and talks about the benefits of our automated investment management service that can be accessed in a number of ways, including via an SMSF. Also, Six Park does not advise as to the suitability of an SMSF to your personal situation.

Any reference to ETFs is general advice only and doesn't take into account your objectives, financial situation or needs. So, before acting on the advice you should consider the appropriateness of the advice having regard to your circumstances and, if a product disclosure statement is available, you should obtain or consider it before making any decision about investing in ETFs.

Throughout this white paper when we refer to an SMSF trustee with basic, simple or straightforward investments activities we mean someone who would typically own 20 or fewer shareholdings, not actively trade on a daily or weekly basis and whose SMSF does not hold other assets such as direct property, unlisted or privately held securities.

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Self-Managed Super – Why the game has changed

1 Million+ and growing

More Australians than ever before are choosing to take establish Self-Managed Super Funds (SMSFs).

According to recent ATO data[2], 1+ million people are members of an SMSF (up 20% since 2012) and over $635 billion of assets lie in the hands of SMSFs.

More inclusive

SMSFs are no longer the exclusive domain of older, wealthy retirees.

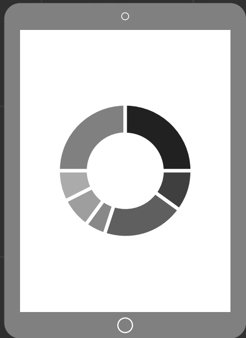
In 2015, the average age of members of newly established funds was 49 years, down from 54 years in 2011. More than 38% of all members of SMSFs established in 2015 were aged 44 or under, compared to just 22% in 2011[3].

Cost-effective

Recent developments in technology and automation has made SMSFs more accessible and affordable than ever before.

In the past, the traditional rule of thumb was that you needed assets of at least $200,000 (if not $500,000+) for an SMSF to be cost-effective. The rise of new technology-driven services is challenging that notion. It is now possible for an SMSF to be economically viable with balances of closer to $100,000, especially if you have fairly simple affairs and needs.[4]

2 ATO Self-managed super fund statistical report – December 2016, Population and asset allocation tables (http://bit.ly/2nJo6yV).
3 ATO Self-managed superannuation funds: A statistical overview 2014-2015; Table 10 (http://bit.ly/2nJxJ08).
4 Please refer to "How much does it really cost to set up and administer an SMSF?" on page 16.



Easier investment diversification

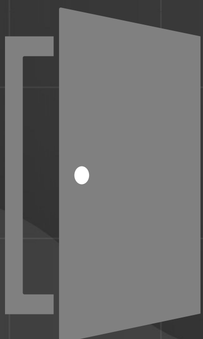
New highly automated investment advisors are enabling people to construct smart, diversified portfolios at very low costs.

Utilising sophisticated digital processes and algorithms, these online platforms can help investors build portfolios that are globally diversified and tailored to their risk profile and time horizon. Being highly automated, they are able to deliver these services at costs well below those typically charged for traditional financial advice.[5]

Lower administrative burden

There are now low cost SMSF administrators who can help investors establish and carry out all the basic administrative functions of an SMSF at significantly lower costs than typically incurred in the past.[6]

By utilising paperless, automated processes (and other technologies), these providers eliminate many of the costly, manual procedures involved in setting up and running an SMSF.



Accessible and affordable

The combination of low cost administration and automated investment advice has made it cheaper and easier than ever to launch and manage an SMSF fund.

As a result, the minimum viable fund size for an SMSF is now lower than ever before.

5 Please refer to "The role that robo-advice can play in an SMSF" on page 31.
6 Please refer to "How much does it really cost to set up and administer an SMSF?" on page 16.

What is an SMSF?

As the name suggests, an SMSF is a private superannuation fund that you run and manage yourself.

SMSFs are different from the mainstream super funds that you may already be a member of through your work or industry association. Mainstream funds – often classified as either industry, corporate, public sector or retail funds depending on their membership profiles – pool the investments of their members (typically hundreds if not thousands of individuals) and take full responsibility for investing and administering these funds collectively on behalf of their members. In comparison, SMSFs are private super funds where the members themselves are responsible for investing and administering their own retirement savings.

According to statistics from the Australian Prudential Regulatory Authority[7], SMSFs are the largest category of superannuation fund in Australia (by assets), representing 30% of the country's $2.2 trillion superannuation asset pool. More than 1 million people are now members of an SMSF, a figure which is up 20% since 2012[8].

The average age of investors establishing SMSF funds is also falling. According to recent ATO statistics[9], the average age of members of newly established funds was 49 years in 2015 (compared to 54 years in 2011). More than 38% of all members of SMSFs established in 2015 were aged 44 or under, compared to just 22% in 2011.

The basics of SMSFs

- Cannot have more than four members
- Must be structured as trusts – an arrangement where a third party (called the "trustee") holds assets for the benefit of others (the "beneficiaries")
- All members of an SMSF must be trustees of the fund (or directors of the corporate trustee).
- The trustees manage the fund and the members receive the benefits
- The fund must only be run to provide retirement benefits for members and their dependents
- SMSFs are regulated by the Australian Tax Office (ATO), whereas mainstream super funds are regulated by the Australian Prudential Regulatory Authority (APRA), the regulator of financial services firms.

7 APRA Annual Superannuation Bulletin ; June 2016 (issued 01 February 2017) (http://bit.ly/2nJwcrp).

8 ATO Self-managed super fund statistical report – December 2016, Population and asset allocation tables (http://bit.ly/2nJo6yV)

9 ATO Self-managed superannuation funds: A statistical overview 2014-2015; Table 10 (http://bit.ly/2nJxJO8)

How big are most SMSFs?

According to ATO statistics[10], the median value of assets held by SMSFs was $631,000 in 2015. The average value of assets held was higher at $1.1 million per fund, reflecting the 33% of SMSFs which had balances above $1 million.

However, most SMSFs aren't launched at this size. In 2015, the median size of newly established SMSFs was approximately $235,000[11].

10 ATO Self-managed superannuation funds: A statistical overview 2014-2015; Table 12.

11 Ibid, Table 13

Is an SMSF right for you?

Working out whether an SMSF is right for you is a big decision, with many factors to consider. SMSFs can be a prudent way to save for your retirement, but they are certainly not suitable for everyone.

When considering whether or not to set up an SMSF, you should consider the following:

- ✓ **You want more control over your super**
  SMSFs give you the freedom to invest and build your retirement savings as you choose.
- ✓ **You don't mind investing your time as well as your money**
  Monitoring and managing your SMSF portfolio requires careful consideration and research. An SMSF also involves various ongoing compliance and reporting obligations.
- ✓ **You have an interest in investing**
  Superannuation can be interesting, but it isn't always simple. You need to know what you're doing or be happy to seek advice from trusted professionals as and when required.
- ✓ **You are prepared to take responsibility**
  Ultimately, the buck stops with you. Even if you engage experts to help you, as the trustee of your SMSF you are legally responsible for the operation of your fund and must ensure that it complies with all laws and regulations.
- ✓ **You want flexibility and choice**
  SMSF investors have flexibility and choice in how they design and implement their fund's investment strategy and can make all their own investment decisions.
- ✓ **You want the potential for greater cost control**
  The ability to manage ongoing fees and charges is a key reason driving investors to launch SMSFs. Depending on your circumstances, an SMSF may offer potential costs savings, especially if you pool your super with others to share the running costs. (Of course, if not well managed, the costs of an SMSF can also be higher than other superannuation options).
- ✓ **You would like to optimise your tax situation**
  SMSFs can provide more scope for individuals to manage the tax effectiveness of their retirement savings. This is usually more limited in a mainstream fund environment.

At the same time, moving to an SMSF structure is not without its risks. These include:

1. **Active involvement**
   Running an SMSF requires you to become more actively involved in managing your investments and ensuring your fund complies with all the rules and regulations. That is the natural trade-off which comes from having the control and flexibility of your own super fund.

2. **Knowledge and expertise requirements**
   Self-managing your retirement investments requires you to have the knowledge and skills to make your own investment decisions and be aware of all your legal responsibilities as trustee (and/or to be able to select and work with the right advisers to support your decisions). In contrast, a mainstream fund can represent a simpler "set and forget" approach

3. **Costs**
   Running an SMSF will incur various costs (including annual accounting, audit and tax fees). If not well managed, the costs and administrative burden can quickly erode retirement savings.

4. **Consequences**
   Having an SMSF brings with it a range of administrative, compliance and reporting requirements. If your SMSF fails to meet these requirements, then it may be deemed 'non-complying' by the ATO and you may face a variety of potentially significant tax consequences and financial penalties.

5. **Potential loss of benefits**
   Most mainstream funds offer group life and disability insurance policies to their members. In an SMSF structure, you may need to have to arrange for separate insurance cover (which may be more expensive or difficult to implement depending on your personal circumstances).

It is important to understand both the advantages and risks that come with operating an SMSF and, if appropriate, to seek professional advice from a qualified adviser.

Challenging two common SMSF presumptions

How much is needed for an SMSF to be cost-effective?

"DIY funds with less than $2 million not viable, say industry funds" – The Age, 22 Feb 2017.

In the past, the traditional rule of thumb was that you needed assets of at least $200,000 (if not $500,000 or higher) for an SMSF to be cost-effective. This view largely stems from a 2013 study commissioned by ASIC. That research (Rice Warner 'Costs of Operating SMSFs' May 2013[12]) found that SMSFs were only cost-competitive in comparison with traditional retail or industry superannuation funds if they had balances of $200,000+. This assumed that SMSF trustees undertook some of the fund administration duties themselves. Where trustees outsourced all fund administration and investment services, the study concluded that SMSFs were only cost-competitive with retail/industry funds where they had larger balances of at least $500,000.

How big does an SMSF need to be to be properly diversified?

"SMSFs with balances below the $200,000 threshold are generally not properly diversified. This results in a sub-standard performance for smaller DIY funds compared to larger funds." – from 'Deciding how much is needed to start an SMSF', The Financial Review, 14 March 2017.

This statement is currently true. However, given the growth in Exchange Traded Funds and more cost-effective investment management services, we challenge whether smaller funds are poorly diversified because they can't be well diversified, or because they are not aware of the ability to achieve investment diversification by utilising new, accessible, low-cost investment management services.

The rise of new technology-driven services is challenging this presumption.

As we explain in this white paper, with the advent of automation, digital processes, software and algorithms, the costs of establishing and operating an SMSF have fallen dramatically – and are continuing to do so. As a result, the minimum viable fund size for an SMSF can be considerably lower.

It is now possible for small-balance SMSFs to operate at significantly lower costs and construct a prudently diversified portfolio of investments.

In certain circumstances, it can now even be economic to run SMSFs with super balances of closer to $100,000 – especially for individual SMSFs with relatively simple affairs and investment requirements (see "How much does it really cost to set up and administer an SMSF?" on page 16).

In the past, some low-value SMSFs have underperformed due to poor investment diversification. The emergence of highly automated investment management services ("Robo-Advisors") have made it feasible for smaller value SMSFs to get properly diversified at a low cost.

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12 Rice Warner Actuaries 'Cost of Operating SMSFs ASIC' Report,May 2013 (http://bit.ly/2dq1wfx).

Technology and innovation have driven SMSF costs down

So why is the cost of running an SMSF coming down?

The simple answers are technology and innovation.

With the advent of paperless processing and sophisticated software, many of the time-consuming and costly tasks which SMSFs have traditionally had to undertake manually can now be automated and performed more quickly and at much lower cost.

Accounts and records can now be instantly prepared and easily reconciled using electronic data feeds. Annual compliance activities can be electronically diarised, maintained and filed. Even investment management can be outsourced to robo-advisory firms that are able to utilise digital processes and algorithms to deliver highly efficient, low-cost investment portfolios.

This means administrators and investment managers are able to provide better value, lower fee services, especially for those investors with relatively simple affairs and requirements.

As a result, SMSFs are now cheaper and easier to set up and operate than ever before.

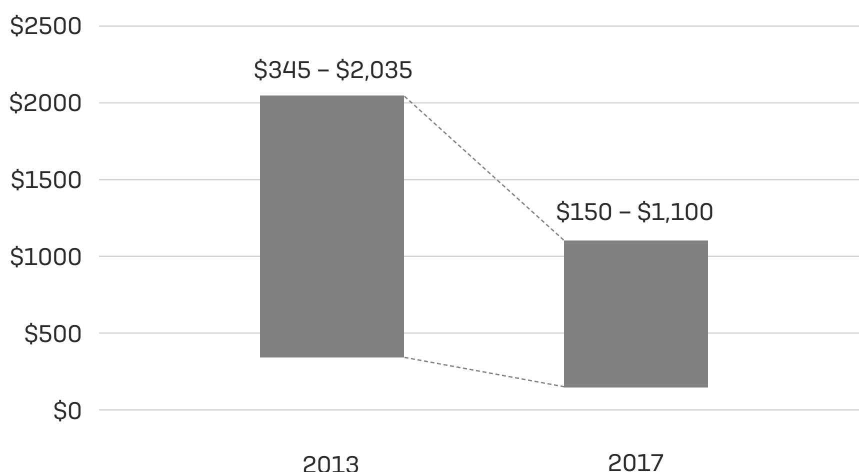
How much does it really cost to set up and administer an SMSF?

Set-up

According to a 2013 Rice Warner study[13] commissioned by ASIC, the one-off establishment costs for new SMSFs ranged from $345 to $990 for an SMSF with individual trustees. Those SMSFs with corporate trusts had establishment costs of $916 to $2,035. These set-up costs included ASIC fees as well as the legal and registration costs of registering the trust, but excluded any fees for financial and taxation advice (which vary considerably depending on the applicant's circumstances).

Fast-forward to today, and the combination of technological advances and competition has seen the costs of SMSF establishment decline. While some fee components (such as ASIC registration fees) remain unavoidable, there are now many SMSF administrators who offer nominal fees to undertake the legal and compliance aspects of an SMSF set-up – particularly if clients are willing to have some input into the process (for example, tailoring their own fund investment strategy based on provided templates and general guidance).[14]

Figure 1 - SMSF set-up costs. Source: 2013 figures based on Rice Warner 2013 study. Current estimates based on Six Park market research[14].



Naturally, set-up costs for a SMSF can be higher in more complex cases, especially if members require upfront financial advice or need complex tax structuring assistance.

However, for individuals with nominal administrative requirements, the set-up costs for an SMSF do not need to be prohibitive, even for smaller accounts. And set-up costs may be even more manageable where an SMSF has two or more members sharing the same upfront set-up fees (since most fees are not dependent on the number of members in the SMSF).

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13 Rice Warner Actuaries 'Cost of Operating SMSFs ASIC' Report, May 2013 (http://bit.ly/2dq1wfx).

14 Based on published online prices from the following five SMSF administrators of 7 April 2017 – Superannuation Warehouse (www.smsfwarehouse.com.au), Xpress Super (www.xpresssuper.com.au), Esuperfund (www.esuperfund.com.au), Cleardocs (www.cleardocs.com.au) and Online Super Fund (www.onlinesuperfund.com.au).

Annual administration costs

Having an SMSF means you will incur various ongoing compliance and administration costs each year, including fees for statutory charges, preparation of financial statements and mandatory fund audits. The extent of these will vary greatly depending on the nature and complexity of your SMSF's activities.

On top of these compliance/administrative costs, SMSFs typically also incur additional expenses for the investment management aspects of their activities. This might comprise brokerage on share purchases, fees on any managed fund investments or fees/commissions on any investment properties.

The extent of these additional expenses will depend largely on the nature of the fund's investments. They may be very small (e.g. for funds which hold predominantly bank deposits and low-cost exchange traded funds) or they may be more significant (e.g. where a fund invests in more complex and expensive arrangements).

In 2013, Rice Warner[15] estimated that a typical SMSF incurred administration costs of between $1,163 and $2,367 per annum for funds whilst in accumulation mode – provided the SMSF trustees carried out broader administration and investment functions.

Where the trustees required broader services, including investment accounting, access to investment platforms, analysis and reporting, the annual fee range was considerably higher at $2,468 to $7,443.

For SMSFs with smaller balances (below $200,000), these figures represented a very high percentage of fund assets. As an example, for a $100,000 fund, these annual running costs amounted to 1.2% to 7.4% per annum – compared to the estimated 0.6% to 1.3% fees on an equivalent holding in an industry or retail super fund.

On this basis, it was concluded that SMSFs were only cost-competitive with alternative superannuation structures if they had balances of at least $200,000. SMSFs that outsource all their administration activities would only be cost-effective if their asset balances exceeded $500,000.

The historically high running costs of smaller SMSFs is borne out in recent statistics from the ATO. According to 2014-15 data[16] (the latest available statistics at the time of writing), SMSFs with balances of $100,000 to $200,000 incurred average total expenses of 5.7% of their assets each year – with 2.2% in administration and operating expenses and 3.5% in investment-related expenditure.

These figures are broadly consistent with the upper end of Rice Warner's 2013 figures, although we note the ATO data should be interpreted with caution. Amongst other things, the reported averages include those SMSFs in pension phase, which skew the average expense ratios higher.

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15 Rice Warner Actuaries 'Cost of Operating SMSFs ASIC" Report, May 2013 (http://bit.ly/2dq1wfx).

16 ATO Self-managed superannuation funds: A statistical overview 2014-2015; Table 22.

The figures also include life insurance premiums, which are not typically included in quoted industry/ retail superannuation comparisons. Nonetheless, these statistics still suggest that smaller SMSFs have traditionally not been cost-competitive.

However, times are changing and costs are declining rapidly. As a result, we believe these historical headline figures are no longer applicable to all smaller SMSFs.

Many SMSF administrators now provide extensive compliance, administration, accounting and audit packages for less than $1,000 per annum – provided the SMSF's activities are relatively simple.[17]

This low-cost solution, when combined with (i) the mandatory annual ASIC and ATO charges and (ii) a low-cost investment strategy (either self-directed in shares or exchange traded funds, or alternatively though a low-cost robo-advisor) means the total annual operating costs of an SMSF (including comprehensive reporting and compliance as well as full access to investment platforms, analysis and reporting) can be as low as 1.3% to 2.0% per annum all-up for SMSFs with balances of $100,000 (see Figure 2).

Figure 2 - Potential annual operating costs for a $100,000 SMSF.

	POTENTIAL ANNUAL OPERATING COSTS FOR A BASIC $100,000 SMSF
Annual ASIC Fees	$47
ATO Supervisory Levy	$259
Admin, Accounting, Compliance, Audit	$990
Investment Fees	$0 - $750
Total Costs	$1,296 - $2,046
Total Costs as % of Assets	1.3% - 2.0%

Note:

Six Park estimates based on an SMSF with individual trustees. Low end assumes investments are in cash. High end of the investment fees assumes portfolio is fully invested in Six Park's balanced portfolio and includes all associated direct and indirect costs. Administration, accounting, compliance and audit costs based on Six Park's market research[17]. Excludes SMSF set-up costs and any fees associated with financial advice and insurance.

17 Based on published online prices from the following five SMSF administrators of 7 April 2017 – Superannuation Warehouse (www.smsfwarehouse.com.au), Xpress Super (www.xpresssuper.com.au), Esuperfund (www.esuperfund.com.au), Cleardocs (www.cleardocs.com.au) and Online Super Fund (www.onlinesuperfund.com.au).

Cost levels improve rapidly as an SMSF balance grows, falling to 1.0 – 1.8% per annum at fund balances of just $125,000 and 0.9% to 1.6% for balances of $150,000. This is because the core administrative costs generally do not increase with fund size (provided the SMSFs activities do not get any more complex of course).

Figure 3 - Estimated annual operating costs as a percentage of assets.

	ESTIMATED ANNUAL OPERATING COSTS AS % OF ASSETS
$100,000 Fund	1.3% - 2.0%
$125,000 Fund	1.0% - 1.8%
$150,000 Fund	0.9% - 1.6%

Note:

Six Park estimates based on an SMSF with individual trustees. Low end assumes investments are in cash. High end of the investment fees assumes portfolio is fully invested in Six Park's balanced portfolio and includes all associated direct and indirect costs. Administration, accounting, compliance and audit costs based on Six Park's market research[18]. Excludes SMSF set-up costs and any fees associated with financial advice and insurance.

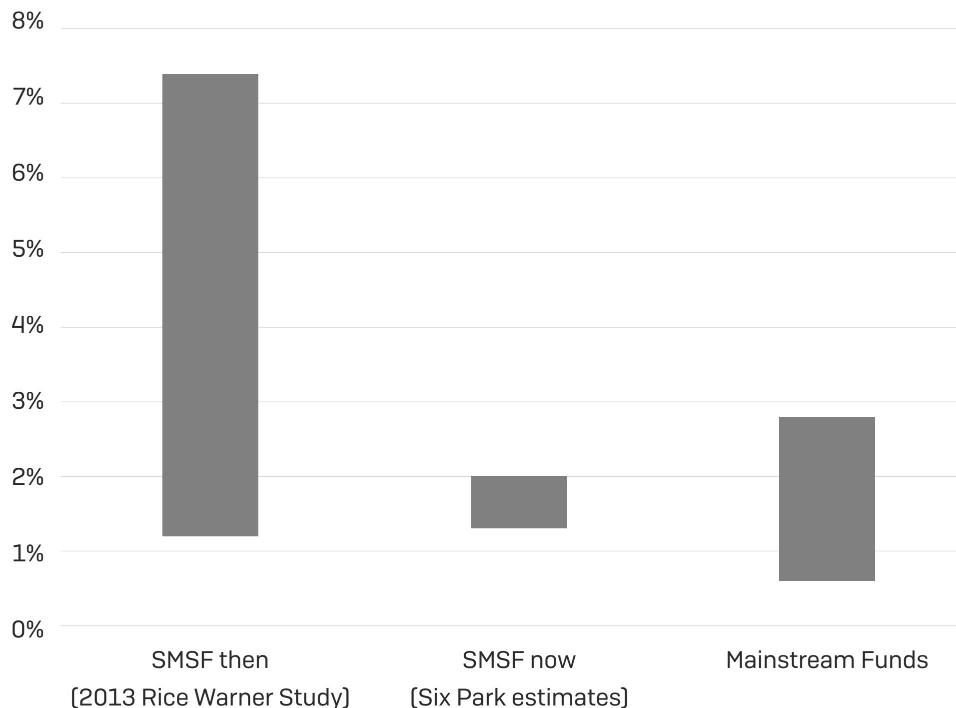
This analysis demonstrates that even smaller SMSFs with balances as low as $100,000 can operate on a cost-effective basis. As shown below, these smaller funds may also be cost-competitive with mainstream superannuation funds.

According to recent Canstar research[19], the average cost of mainstream retail and industry funds with similar account balances ranged from 0.6% to 2.8%, so a smaller SMSF could have competitive running costs depending on the mainstream fund it is being compared to.

18 Based on published online prices from the following five SMSF administrators of 7 April 2017 – Superannuation Warehouse (www.smsfwarehouse.com.au), Xpress Super (www.xpresssuper.com.au), Esuperfund (www.esuperfund.com.au), Cleardocs (www.cleardocs.com.au) and Online Super Fund (www.onlinesuperfund.com.au).

19 CANSTAR Superannuation Star Ratings 2016 for fund sizes of between $80,000 to $140,000 as reported in "What fees do Super Funds charge?" 14 September 2016 at http://bit.ly/2ocouaW

Figure 4 - Comparison of annual operating costs for superannuation investment funds of $100,000.



Note:

Mainstream fund figures are estimates derived from Canstar 2016 ratings analysis for fund sizes of between $80,000 and $140,000[20].

Where an SMSF has two or more members, an SMSF may be even more cost-effective since the operating costs for the fund could be shared, whereas typically in a mainstream fund, the members would pay separate administration/platform costs.

Of course, the above analysis may not apply where an individual has more complicated objectives or more complex tax affairs. In these circumstances, an SMSF with a small balance may not achieve the same level of cost-effectiveness as quoted above.

Similarly, individuals who are likely to require higher levels of advice and support in a SMSF environment may well be better off remaining in a mainstream fund. As we noted above, SMSFs are certainly not suitable for everyone.

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20 CANSTAR Superannuation Star Ratings 2016 for fund sizes of between $80,000 to $140,000 as reported in "What fees do Super Funds charge?" 14 September 2016 at http://bit.ly/2ocouaW

That said, we have encountered many people who have decided to set up an SMSF but ultimately elected not to proceed because of what they heard or read about historical minimum fund size thresholds and traditional costs. In our view, these thresholds and cost levels do not necessarily apply and are therefore worth further analysis. It may well be possible to operate a cost-effective SMSF with a much lower account balance than you had previously ever considered.

Technology and its role in compliance

The laws governing the way super funds are required to operate are constantly tweaked and changed in the effort to protect that money. These changes might create different compliance requirements, new reporting obligations or may even alter the way investments need to be managed.

One of the other advantages of automated administration systems is that they are typically equipped to accept and implement changes quickly, and to minimise human intervention when laws or conditions change. This has the capacity to make it easier for investors to ensure they are meeting their requirements.

How technology can help SMSFs invest more efficiently and effectively

Having an SMSF with low operating costs is important, but ultimately it is just one element of an effective superannuation strategy.

Deciding how and where you will invest your retirement savings is also a key consideration. After all, having a low-cost SMSF will be of limited benefit if the fund is invested ineffectively.

Common pitfalls: Poor diversification and high fees

Many SMSF investors, particularly those with smaller account balances, have historically built portfolios which are poorly diversified.

As a result, they are probably taking on more risk than necessary and/or are missing out on the potential for higher returns.

Many SMSF investors are also paying excessive fees for investment advice, which are not only higher than they need be but also impact on their investment returns.

Given these factors, it is not surprising that we hear and read that many SMSFs, particularly those with smaller balances, tend to have poor investment performance.

But this does not have to be the case.

The impact of technology on investing

Changes in technology mean there is now no reason why SMSFs – even ones with small account balances – cannot build portfolios which are globally diversified and tailored to their risk profile, objectives and time horizon.

These portfolios do not have to be expensive to implement or maintain.

And there is no reason why these portfolios cannot generate strong long-term returns, especially by embracing low-cost, passive asset allocation strategies offered by many robo-advisors.

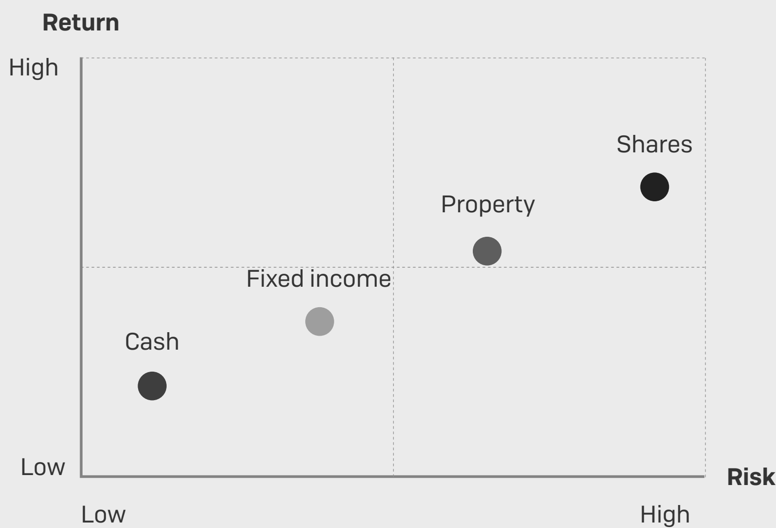
Diversification: Why it can boost returns and reduce risk

In simple terms, diversification is just the notion of not having all your "eggs in one basket". When it comes to investing, this means spreading your portfolio across different assets and asset classes which react differently under different circumstances. Doing this reduces the risk of your portfolio being affected by unexpected changes in markets and economic conditions. This is because the

negative performance of some investments will tend to be offset by the positive of performance of others. Over the longer term, studies have shown that a diversified portfolio will typically generate higher and less volatile average returns.

Diversification is owning asset classes that have varying risk/return profiles

Different asset classes have different risk/return profiles and therefore tend to behave differently over time. Shares tend to outperform other assets over the long run but can be more volatile. Bonds generally provide more steady returns but more limited capital long term growth. The typical risk-return trade-off of the different classes of assets is often represented graphically like this:



Taking on higher risk does not automatically guarantee higher returns. Riskier investments do not always pay more than less risky investments. This is precisely what makes them riskier.

According to data from the ATO[21], many SMSFs have portfolios which are poorly diversified. As at 30 June 2016, the average SMSF held more than 75% of their investments in just three asset classes – Australian shares and listed trusts (35% of assets), cash holdings (26%) and domestic property (15%). Investments in overseas assets represented less than 1% of SMSF portfolios. This is quite different to the portfolios of mainstream funds which generally hold a greater proportion of international shares and bonds.

Portfolio concentration was even worse amongst smaller SMSFs (i.e. those with balances below $200,000). On average, these funds had more than half their investable assets in cash. Almost 80% of these funds were invested in only Australian shares and cash.

Figure 5 - Asset Allocation - all SMSFs June 2016.[21]

ASSET CLASS	PERCENTAGE
Australian shares and listed trusts	34%
Cash	26%
Domestic property	15%
Unlisted investments	11%
Other	14%

Figure 6 - Asset Allocation - SMSFs with balances below $200,000.[21]

ASSET CLASS	PERCENTAGE
Australian shares	23%
Cash	51%
Other	26%

21 ATO Self-managed superannuation funds: A statistical overview 2014-2015; Table 22.

There are some shortcomings with this ATO data. Most of the ATO's figures are estimates. The statistics do not distinguish between funds in pension and accumulation mode (which would typically have different asset allocations). The reported allocation to overseas assets is probably also understated since it excludes Australian-domiciled managed funds which invest offshore.

Nonetheless, the report indicates that many SMSFs have portfolios which are poorly constructed. Being poorly diversified means these funds are probably taking unnecessary investment risks and/or are missing out on the potential for higher investment returns.

Although having a concentrated portfolio might make some sense for investors (e.g. those with shorter investment horizons and/or lower appetites for risk), diversification can be one of the best things you can do to reduce risk and improve returns for your SMSF while you are seeking to accumulate assets for retirement.

Asset allocation: Why it makes a difference

Establishing an appropriate investment portfolio for your SMSF requires more than simply acquiring a diversified spread of different assets. The optimal blend of assets for your SMSF will depend significantly upon your investment profile and those of the other members in your SMSF.

A range of factors, such as each member's willingness to tolerate risk, financial circumstances, ability to weather losses, age and the length of time until retirement, all influence the type of assets that best suit your optimal investment profile.

Younger investors with longer investment horizons might be more willing to ride the highs and lows of high-growth, high-risk assets, while older investors with a higher need to avoid capital losses might prefer more stable assets such as bonds and cash.

Determining the right asset allocation strategy for your SMSF can be challenging.

One tool for developing an asset allocation strategy is modern portfolio theory (MPT), an approach many pre-eminent money managers use globally as the foundation for their portfolio investment decisions. The economists who developed MPT received a Nobel Prize in Economics for their work.

While the maths and theory behind MPT is complicated, the approach basically looks how individual asset classes perform (i.e. what returns they generate and how variable those returns are over time) and how that performance compares with other asset classes (i.e. how much correlation there is between their performances). Using these statistical relationships, MPT can be used to determine what composition of asset classes will provide the highest return for a given level of risk.

Although MPT has its limitations (and is by no means the only asset allocation methodology), it is generally considered by many to be the best framework on which to build a diversified investment portfolio.

The problem with high costs

The problem with high costs is that they can have a significant impact on final retirement balances. In the same way that investing for the long-term takes advantage of the power of compounding, high fees and costs reduce the overall potential of a portfolio.

This is because fees and costs erode the returns flowing to the investor and in turn reduce the potential for that money to be reinvested and compound into the future.

The impact of fees on compound interest can be demonstrated powerfully in a simple calculation using ASIC's managed funds fee calculator.[22]

Let's imagine two investors – we'll call them Rachel and Susan.

Rachel has $100,000 in assets and is able to contribute $10,000 each year. Her current investment fees are 2.0%.

If Rachel earns an average 7 per cent return each year, then after 20 years Rachel's assets would have grown to $583,779 and she would have paid $213,145 in fees.

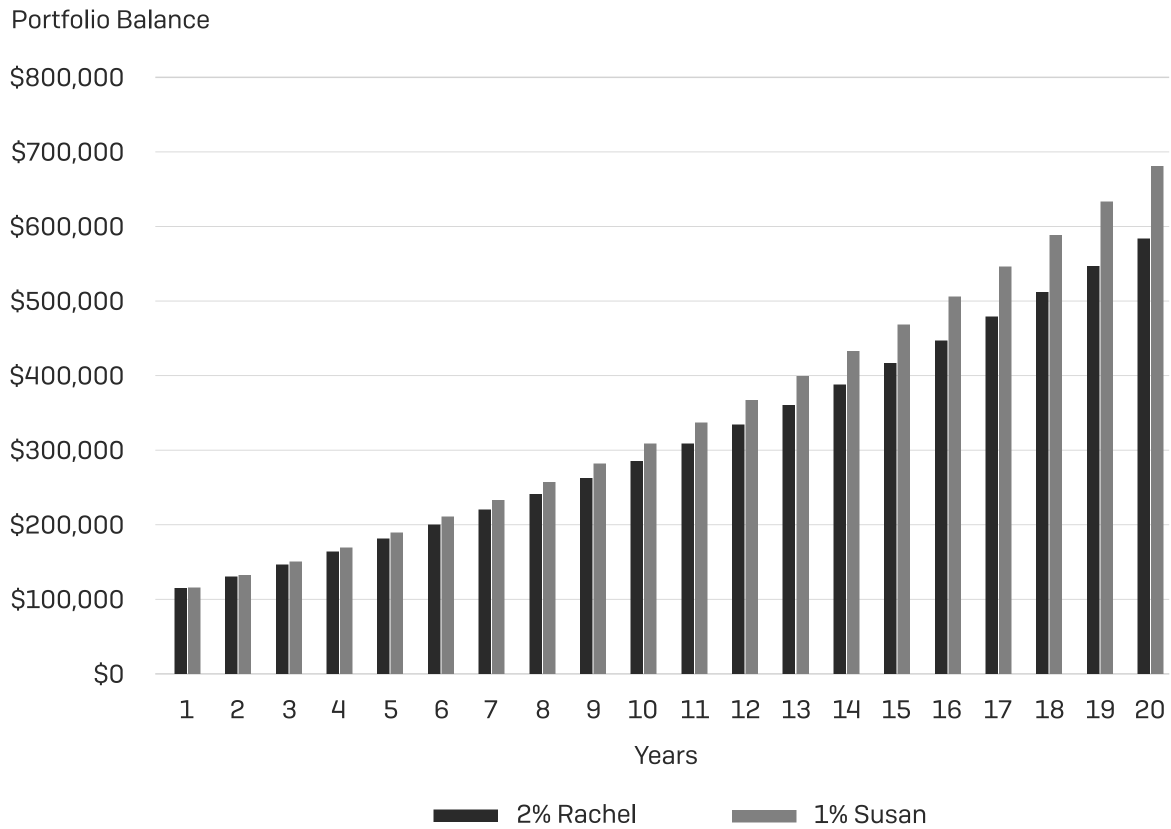
Susan also has $100,000 in assets, but her investment fees are 1.0%.

After the same 20 years, and with no extra contributions, Susan's $100,000 investment would have grown to $680,997 during which time she would have paid $115,926 in fees.

Rachel has paid 84% more in fees and has $97,000 less savings to show for it than Susan. That's the impact of lower fees over time.

22 Refer https://www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/managed-funds-fee-calculator

Figure 7 - Example of the impact of fees on portfolio balances.[23]



23 Refer https://www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/managed-funds-fee-calculator

Harnessing the power of technology

We have seen earlier how technology is helping to bring down the costs of establishing and administering an SMSF portfolio.

At the same time, it can also help SMSFs build more efficient and effective investment portfolios.

One of the key developments in this area has been the rise of new highly automated investment management services or so-called "robo-advisors". These new services are enabling people to construct smart, diversified portfolios at very low costs.

They are also making it far simpler to monitor and maintain investment portfolios, providing key services like portfolio rebalancing and reporting as part of their offerings.

Central to the rise of robo-advisory services has been the growth in availability of Exchange Traded Funds (or ETFs, as described in the next section). These funds make it possible for investors to gain low-cost, immediate access to highly diversified asset classes.

The rise of Exchange Traded Funds

An ETF is a type of fund that trades on the share market, much like a share of say Telstra or the Commonwealth Bank.

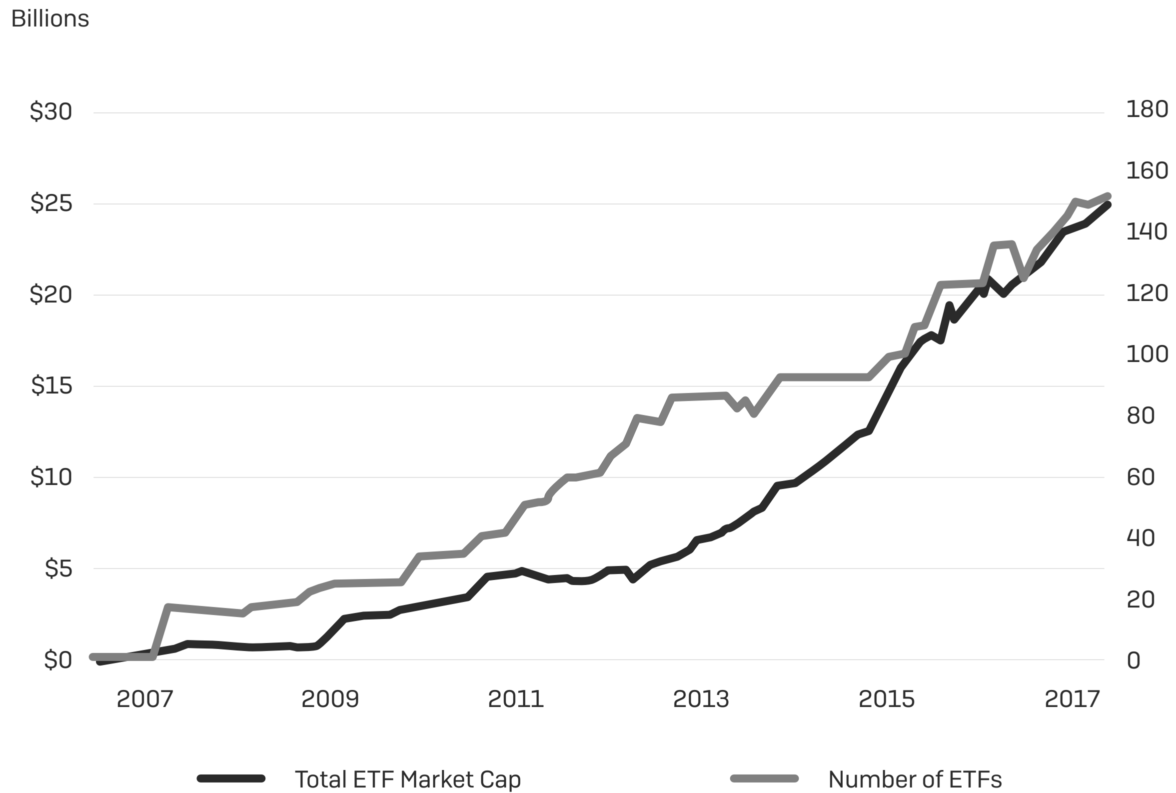
Rather than investing in just one security, an ETF typically invests in a basket of assets. These assets might be shares, bonds, property, currencies or commodities, usually with a focus on a particular geography, industry or market. When you buy an ETF, you basically buy an interest in that ETF's basket of assets.

Many ETFs are designed to track a particular market index, such as the ASX200 or S&P500 index. They do this by buying every (or almost every) share/bond/asset in their target index – usually in the same proportion that those shares/bonds/assets represent in that index. In doing so, ETFs mimic the performance of their targeted index – but with low costs and high tax efficiency.

ETFs are one of the fastest growing investment products in Australia and the world. There are now about 200 different ETFs listed on the ASX (up from just 37 five years ago) with more than $24.5 billion of total funds under management.[24]

24 Funds Statistics for Exchange Traded Products provided by ASX.

Figure 8 - Growth of ETFs on the Australian Stock Exchange.[25]



ETFs can be an ideal investment vehicle for SMSFs for a number of reasons:

- **Immediate diversification**
  With just a single trade, an ETF can provide instant exposure to hundreds (if not thousands) of positions within a specific asset class (e.g. all the shares in ASX200), rather than needing to buy all those underlying exposures individually.

- **Cost efficiency**
  ETFs can be very cost-effective. The management fees charged by ETFs are generally much lower than those charged by equivalent actively managed funds or the costs you would incur to trade those securities individually yourself.

- **Asset allocation simplicity**
  ETFs offer investors ready access to practically any asset class, geographic region and investment strategy.

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25 Funds Statistics for Exchange Traded Products provided by ASX.

- **Flexibility**
  ETFs can be bought and sold during market hours just like any other listed share. This makes ETFs a flexible, liquid and readily tradeable investment proposition.

Although ETFs can be a highly effective investment option, they do not eliminate the need for investors to make their own asset allocation decisions (e.g. what proportions to invest in which funds) or to select which of the competing ETFs are most appropriate. This is where investment advice – whether it is provided by traditional means or through a robo-advisor – can be important.

As with any investment, ETFs also carry with them a number of potential risks, including:

- **Market risk**
  The value of an ETF will rise and fall in line with the value of its underlying assets. If these assets decline in value, ETF holders may experience a loss of capital and/or income. This risk is inherent in many investments, particularly with shares and other growth assets whose prices are influenced by investor sentiment and other market factors.

- **Pricing risk**
  There may be times or circumstances where the market price of an ETF may not properly reflect its net asset value (e.g. where the ETF's underlying assets are not liquid). This may result in investors paying too much for an ETF (or selling too low). Generally ETF issuers engage firms (called market makers) to try and ensure their ETF pricing remains close to net asset value.

- **Tracking errors**
  Fees, taxes and other factors can all influence how closely an ETF is able to track its target index. This tracking error differs across ETFs and can influence investor returns.

- **International exposure risks**
  If an ETF with overseas assets is not hedged against currency risk, fluctuations in exchange rates will affect the value of its portfolio. There may be overseas political factors which may also affect the value of the portfolio.

- **Fund & Counterparty Risk**
  Theses risks include the potential that an ETF fund is terminated or wound up, its responsible entity is replaced and/or its fees structures are altered. There is also a risk that the fund's counterparties become insolvent or cannot otherwise meet their obligations to the fund. These risks can be mitigated to some extent by choosing large, established issuers.

At Six Park, we spend a considerable amount of time reviewing and assessing the ETF marketplace, taking into consideration many factors including fund size, liquidity, tracking error and relative costs. Our ETF selections are regularly reviewed to ensure they represent the best available investment option for our clients.

The role that robo-advice can play in an SMSF

Robo-advice platforms are an increasingly popular source of financial advice. In global terms, robo-advisors already manage in excess of US$50.0 billion, up from US$11.5 billion in April 2014[26] and are forecast to manage 10% of total global assets under management by 2025[27].

Utilising digital processes and algorithms that incorporate modern portfolio theory, and ideally guided by a human overlay, robo-advisory platforms can help investors build portfolios that are globally diversified and tailored to their risk profile, objectives and investment horizon.

Robo-advice can offer a number of benefits to SMSF investors:

- **Low cost**
  Since robo-advisory services are highly automated, they are able to deliver investment advice at a fraction of the cost typically charged for traditional financial advice. Most robo-advisors also extensively utilise ETFs in their portfolio offerings, which further enhance the cost-effectiveness of their portfolios. In addition, robo-advisors typically have low minimum balance requirements, making their services more accessible to those investors with smaller asset pools.

- **Automated rebalancing**
  Rebalancing is where portions of a portfolio are bought and/or sold in order to restore the each holding back to its desired holding percentage. Various studies have shown that rebalanced portfolios generate higher returns and with less volatility than portfolios that were allowed to drift. In the past, portfolio rebalancing was a manual and costly exercise, and as such, many SMSF investors may not have rebalanced as often as they otherwise would have. The rise of robo-advisory platforms now allows portfolio rebalancing to be automatically executed and recorded, making it easier than ever before to keep your portfolio and investment strategy on track.

- **Transparency, accessibility and performance reporting**
  Many SMSF investors don't adequately monitor the performance of their fund using indicators such as net returns, according to a recent CIFR survey.[28] Once their fund is set up they tend to rely on ad hoc or manual performance measurements, which makes it difficult to judge whether the fund's investment strategy is paying off. A well-diversified portfolio using low-cost technology can allow that performance to be accurately measured. For example, an SMSF portfolio invested through a robo-advisory service would typically have online access to all relevant records, performance statistics and reports via computer, tablet or smartphone.

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26 "Digital Wealth Management Market Update: A Mosaic of Models Emerges" (Aite Research, March 2015).

27 BI Intelligence Robo-Advising Report, February 2017.

28 Centre for International Finance and Regulation research working paper: "Experiences of current and former members of SMSFs" (30 September 2016). Survey of 854 current and 147 former SMSF members.

- **Elimination of emotion-driven decisions**
  There's plenty of evidence that when people let emotions drive their investment approach, they typically make poor decisions – like "panic selling" when markets drop only to buy in again after prices have recovered (sell low/buy high). For long-term SMSF investors, patience and smart portfolio management are much more important than fear and panic driven decisions. Robo-advisory services can make it easier for investors to stick to their investment strategies.

Of course, robo-advisory services will not be suitable for all SMSF investors. Most robo-providers offer only "scaled advice" (i.e. advice which is limited in scope) and so may not be suitable for those investors who have more complex affairs and require broader tax, estate planning and financial structuring guidance. They are also unlikely to suit those people who want to actively pick their own stocks. The vast majority of robo-advisors advocate more passive investment strategies, an approach which is advocated by a number of finance luminaries including the likes of Warren Buffett[29] and Jack Bogle (founder of the global Vanguard investment group).

The process of investing can also become more complex over time, and what you need from your SMSF and other services can change. No matter what decision you make today for your super, you need to keep assessing it over time. As you grow older you might need additional advice for issues such as tax or estate planning, and you may therefore need to seek more comprehensive advice and assistance.

If you are going to use a robo-advisory service, make sure you assess the quality of the people behind the technology and in particular the calibre of the investment team behind the automated advice. It is this human overlay, and the strategic advice and oversight provided by it, which is often most important.

Why size doesn't need to matter

With the rapid change in technology, we believe SMSFs now have the potential to build portfolios which are low-cost, globally diversified and which have asset allocations which reflect the risk profile, objectives and time horizons of their members.

These portfolios do not need to be time consuming or complicated to implement or maintain. And there is no reason why these portfolios cannot generate strong long-term returns.

At Six Park, we believe this can be the case for SMSFs of any size – even those with smaller balances.

Data from the ATO (refer to Figure 9 on page 33) indicates that small SMSFs have tended to significantly underperform larger SMSFs over the last 5 years. These returns would have also been below most comparable mainstream funds over the same period.

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29 "Both large and small investors should stick with low-cost indexed funds", Warren Buffett, Berkshire Hathaway Inc 'Annual letter to shareholders 2016'.

Figure 9 - **Average SMSF return on assets by fund size by year.**[30]

FUND SIZE	2011	2012	2013	2014	2015
> $100k - $200k	2.11%	-5.90%	0.66%	1.61%	-0.53%
> $200k - $500k	4.86%	-2.52%	6.39%	5.93%	2.53%
> $500k - $1m	6.36%	-0.41%	9.33%	8.35%	4.60%
> $1m - $2m	7.24%	0.68%	10.65%	9.61%	5.70%

This performance differential could reflect several factors which do not necessarily hold true for all smaller funds.

Firstly, as noted earlier, there has historically been a tendency for smaller funds to have poor diversification within their portfolios. This may have been a driver of the underperformance of many smaller funds in the past, but there is little reason why this need automatically apply in the future.

Given the rising availability of low-cost diversification solutions (e.g. ETFs and robo-advice which are now available for funds of any size), we see no reason why small funds cannot implement well-diversified, efficient and effective portfolios just because they have smaller sums to invest.

To illustrate our point, consider the returns of the Six Park range of portfolios over various time periods to 28 February 2017. These returns are just one example of the multitude of robo-advisory services available in the marketplace for investors both small and large.

These returns are historical in nature and past performance is not indicative of future performance. They do nonetheless demonstrate the potential benefits of low-cost, globally diversified portfolios, which importantly are now readily available to SMSF investors of any size over the timeframe.

30 ATO Self-managed superannuation funds: A statistical overview 2014-2015; Table 21.

Figure 10 - Returns on Six Park model portfolios for the time period ending 28-February-2017.

FUND TYPE	1 YEAR	3 YEARS	5 YEARS
Conservative	2.7%	3.1%	4.6%
Conservative Balanced	5.5%	4.3%	6.8%
Balanced	8.7%	5.0%	8.4%
Balanced Growth	10.5%	6.6%	10.6%
Aggressive Growth	13.0%	6.9%	11.7%

Notes:

1. Past performance is not indicative of future performance.
2. The figures shown are annualised returns over the specified periods and incorporate both capital gains and distributions. Reinvestment of dividends is assumed but no portfolio rebalancing or additional investment contributions are included.
3. Where available, the figures are based on the historical closing prices of Six Park's chosen ETFs and published distributions. For periods predating the inception of our chosen ETFs, we have used index returns and/or alternative proxies with adjustments for ETF fees.
4. The returns include an allowance for SMSF administration costs and fees of $1,296 per annum (in line with the amounts and assumptions set out in Figure 2 on page 18). The returns are also net of Six Park's fees (assuming a notional fully invested portfolio of $100,000) and are also net of applicable ETF fees. No allowance for taxes, insurance or other advice fees are included.
5. All figures are based on Six Park's current asset allocations and fees and assume these allocations remained static over the respective periods.
6. Six Park ETFs include ASX-listed STW, VGS, VGE, IFRA, DJRE, IAF and AAA.

Another important consideration is that the above ATO statistics (refer to Figure 9 on page 33) include funds in retirement phase, which are likely to have had larger allocations to lower return, more defensive investments (such as cash). The statistics would also include funds in wind-down mode, possibly following the death/retirement of their members. Such funds may not be particularly economic or high-return seeking and would also skew the published returns lower.

A case study

How a switch to SMSF allowed James and Rebecca to take control of their super

James and Rebecca[31] had always had their superannuation invested in two mainstream funds. And like many Australians, the couple had spent most of their early working lives thinking as little about their super as possible.

“We knew it was important but it felt a long way off. I never really felt connected to that money, apart from the depressing fees. To be honest, we didn’t feel like we had a lot of insight into how that money was being invested – it was just money that we never saw,” explained James.

Now in their mid-30s – the time of life when their earning potential is at its peak – and with two young children in their bustling household, the couple decided it was time to take control of their future retirement.

> **“Once you have kids you realise you don’t just want the best outcome personally but you want the best for them too.”**

After some digging, they realised that they were paying higher fees and getting poorer investment returns than they expected. They decided to pursue an SMSF and came across the offering from Six Park and its partners which provides a combined, low-cost set-up, ongoing administration and investment service. After doing their research, James and Rebecca made the decision to open their SMSF and rolled over the cash from their previous funds, giving them a balance of about $190,000 – a touch above the average for a couple their age.

Cost comparison

James and Rebecca were paying a combined $3,221 a year in ongoing administration and investment fees. In moving to an SMSF, the annual operating costs of their superannuation (inclusive of set-up, administration, regulatory charges and investment fees) have fallen to $2,720 per annum.[32]

> **“We didn’t realise how much we were paying in our retail funds – especially because we were doubling up on administration fees unnecessarily. We’ve done the numbers carefully and think we’ll save around $500 in costs each year.” James said.**

31 This is a real-life case study but names have been changed for privacy reasons.

32 The figures quoted are based on the circumstances of the individuals mentioned. It may not be applicable to your situation.

Comparing returns

James and Rebecca have chosen to allocate their savings to Six Park's investment management service. Six Park's automated investment model appealed to the couple, who were also impressed by the company's Investment Advisory Committee, made up of former Future Fund Board of Guardians member Brian Watson AO, former Australian Finance Minister Lindsay Tanner, and Paul Costello, who was the Chief Executive of the Superannuation Trust of Australia.

"They're people with an amazing depth of experience in their industry," James says. "It's not a bunch of robots – it's smart algorithms plus really smart people. We get the expertise and insight of their years and years of experience and it's all really low cost – a very compelling combination."

James is sorry he didn't think about moving to the Six Park offering earlier. He has compared the investment results of their previous mainstream funds and found that both funds had underperformed over 1, 3 and 5-year periods for similar investment profiles.[33]

"Over a five-year period, our old funds returned an average 8.5% per year whereas Six Park's returns over the same period were 9.7%. This made sense to us after we studied about the benefits of using exchange traded funds with a low-cost provider."

It is important to note that past performance is not an indicator of future performance. Six Park may not have outperformed every mainstream fund over the last 1, 3 and 5 years and there is no guarantee that it will outperform for James and Rebecca in the future.

Simple process

James says the process of setting up their fund and arranging insurance was easier than expected.

"It was a simpler process than we expected it to be. The information was easy to understand and the transition was less complicated than I was expecting. We have more influence over our retirement savings now and we like that we have more visibility into our investment portfolio."

33 The figures quoted are based on the circumstances of the individuals mentioned. It may not be applicable to your situation.

“You can put off thinking about super for a while when you’re just starting out but in the end you’ve got to do it – and if you want the best outcome it’s good to be involved.”

Getting started with an SMSF

If you have decided to set up an SMSF, there are a multitude of flow-on factors and decisions that you will need to consider. It is important that you do your homework and obtain professional advice when appropriate.

Setting up an SMSF

One of the first decisions to be made is whether your SMSF will have a corporate or individual trustee structure. This choice of structure will affect how your SMSF is administered and managed.

There are a variety of factors to consider when selecting a trustee structure. An individual trustee structure is cheaper to establish and simpler to maintain than a corporate alternative, but offers less flexibility for changes in members and greater exposure to liabilities. If your affairs are relatively simple and you don't envisage any changes to the composition of your SMSF membership, then an individual trustee structure may align well with your objectives. On the other hand, if you expect a change of members in the future, wish to reduce your personal liability exposure, are considering borrowing through your SMSF or wish to have a sole member fund, then the benefits of a corporate trustee approach would be worth considering. Ultimately your choice of structure should reflect your needs and objectives as well as those of any other members of your SMSF fund.

Beyond the choice of trustee structure are a host of other requirements. These include (i) ensuring your SMSF has a properly prepared and executed trust deed (which by law must impose various minimum obligations on trustees) and (ii) verifying that your SMSF will qualify as an Australian superannuation fund based on the residency and location of its members. A basic checklist of the set-up activities is set out below.

SMSF set-up checklist

- ✓ Choose individual trustees (up to four) or a corporate trustee
- ✓ Create the trust and trust deed, which establishes how to operate the SMSF
- ✓ Appoint your trustees
- ✓ Check your fund is an Australian super fund.
- ✓ Register your fund
- ✓ Develop your investment strategy
- ✓ Set up a bank account

- ✓ Get an electronic service address
- ✓ Determine your ongoing administration strategy
- ✓ Seek professional advice and visit the ATO website for further information.

Spelling it out: the investment strategy

All SMSFs must have a clearly written investment strategy that outlines the fund's investment objectives and specifies the types of investments it can make. The investment strategy must be regularly reviewed in writing to ensure it meets the needs of members and considers factors such as diversification, liquidity (easy access to cash), ability to pay retirement benefits and other costs. Outlined below is a basic checklist to consider.

Investment strategy checklist

Have you:

- ✓ Considered all circumstances of the fund, including risk, diversity, liquidity and member's circumstances?
- ✓ Considered insurance for members?
- ✓ Prepared an investment strategy?
- ✓ Confirmed all fund investments comply with the super laws and are allowed under the trust deed?
- ✓ Regularly reviewed the investment strategy?
- ✓ Documented any decision about the investment strategy?

Meeting the “sole purpose” test

While SMSFs have great flexibility in how they invest, they are still subject to strict laws which ensure that their savings are being used to responsibly fund retirement.

One of the key restrictions is the sole purpose test, which requires that your fund be run purely for the purpose of providing retirement benefits for its members or their dependants. This means that you cannot use your SMSF to try to get early access to your super or to obtain personal use of super fund assets (e.g. such as holiday home or artwork) without adequate compensation. As a general rule, if you

enjoy a benefit (directly or indirectly) from your SMSF's assets before retirement – and that benefit is more than an insignificant or incidental one – then your fund is probably breaching the sole purpose test.

Understanding your SMSF obligations

Superannuation is taxed at a lower rate (contributions and earnings at just 15 per cent), partially as an incentive to save for retirement, which is often decades away for many investors. However, to maintain this tax concession, SMSFs must comply with the law.

If you have an SMSF, you are responsible for ensuring your fund complies with all tax laws and regulations. This includes ensuring all contributions are treated properly (e.g. all members aged 65+ must satisfy a work test before contributing) and all benefit payment rules are observed.

There are also a range of superannuation specific investment rules you will need to adhere to. These include:

- Keeping all SMSF assets separate from their personal money;
- Not lending or providing financial assistance to any fund members or relatives of fund members;
- Making sure all investments are made on a commercial and arm's length basis;
- Not purchasing assets from fund members (certain exceptions apply for listed securities, business real property or managed funds); and
- Making sure no more than 5% of your SMSF's assets are invested in funds or arrangements with related parties.

SMSF compliance checklist

You will need to ensure:

- ✓ The fund has an investment strategy that is regularly reviewed
- ✓ All fund money and assets are held separately from money and assets held by trustees personally or by a related employer
- ✓ All fund investments comply with all superannuation laws
- ✓ All contributions received by the fund are allowed under the superannuation laws

- ✓ All benefit payments made by the fund have been made in accordance with the superannuation laws
- ✓ The proper and accurate records have been maintained for required timeframes.

If your SMSF fails to comply with these requirements, it may be deemed 'non-complying' and hit with a 47 per cent tax rate. All trustees may face substantial fines and penalties and may also be subject to civil or criminal action.

Reporting, auditing and compliance

SMSF investors must keep accurate records, produce an annual return, value assets at market value and advise the ATO of any changes in details. Every SMSF must be audited annually by an independent auditor – this process plays a critical monitoring role to maintain the integrity of funds.

Annual obligations checklist

Each year you will need to detail whether you have:

- ✓ Paid any minimum annual income stream payments required by law
- ✓ Valued the funds' assets at 30 June
- ✓ Obtained an actuarial certificate if required
- ✓ Prepared the fund's end of year financial accounts and statements
- ✓ Appointed an approved SMSF auditor at least 45 days before the SMSF annual return is due
- ✓ Reviewed the fund's investment strategy and documented the review
- ✓ Maintained all fund records as required under superannuation laws.

Your SMSF must also meet all record keeping and compliance obligations, such as lodging annual statements and maintaining accurate minutes of all trustee meetings and decisions. If you use an administration provider and/or investment managers, then they will be able to help with a significant portion of the work required, so while there are jobs that must be done, there is also affordable assistance available.

Insurance

Under superannuation law, all trustees are required to consider whether the fund should hold insurance that provides cover for one or more members of the fund. This requirement doesn't mean that your fund must hold insurance. It just means that you need to consider whether to do so, or not. If you decide not to hold any insurance cover for members via your SMSF, then you may wish to record this decision (and the reasoning) in the investment strategy (or alternatively in a trustee minute).

Important note

The information and checklists above are by no means a complete reference point. To find out more, we recommend you visit the websites of the ATO and ASIC, which have useful resources those seeking more information on setting up and running an SMSF.[34] The SMSF association also has very helpful information in its knowledge centre (www.smsfassociation.com). You should also decide whether to seek professional advice to help you better understand and manage your obligations.

34 See for example, https://www.ato.gov.au/Super/Self-managed-super-funds/Setting-up/

The super revolution is here

Technology and automation are driving rapid changes to the super industry. The emergence of low-cost SMSF administrators has considerably reduced the costs and complexity of setting up and operating an SMSF.

In addition, new highly-automated investment management services are empowering investors to break away from poorly constructed portfolios and expensive financial advisory services.

The combination of low-cost administration and automated investment advice has made it cheaper and easier than ever to launch and manage an SMSF fund. In the past, the traditional rule of thumb was that you needed assets of at least $200,000 (if not $500,000 or higher) for an SMSF to be cost-effective.

The rise of new technology-driven services is challenging that assumption. It is now possible for an SMSF to be economically viable with balances of closer to $100,000 (if you have fairly simple affairs and needs).

As a result, the minimum viable fund size for an SMSF is now lower than ever before. SMSFs are still not for everyone, but rapid technological innovations mean they offer advantages to a far greater number of people than ever before.

Meet the Six Park team

Investment Advisory Council

Brian Watson AO

Six Park Founder and Chairman of the Investment Advisory Committee. Prior to founding Six Park, Brian was a founding Member of the Board of Guardians of the Australian Government Future Fund, and served on that Board from 2006-2012. He also is the former Deputy Chairman of the Australian Government's Innovation Australia Board.

Paul Costello

Paul joined the Six Park Investment Advisory Committee in early 2016. He is the founding general manager of the Australian Government's Future Fund and was the first CEO of the New Zealand Future Fund.

Lindsay Tanner

Lindsay Tanner is a former member of the Australian Government as Minister for Finance from 2007 to 2010, and a former Member of the House of Representatives for Melbourne from 1993 to 2010.

Management Team

Patrick Garrett

Pat is the Six Park Chief Executive Officer. He co-founded Six Park in 2014 after a 25-year career in the financial services industry. From 1990 to 2005, Pat worked at JP Morgan in New York, San Francisco, and Melbourne (Australia). Since 2005, Pat has worked at Georgica Associates, a private investment management firm based in Melbourne. At both JP Morgan and Georgica Associates, Pat was involved with managing global private equity investment portfolios and had specific responsibilities for investment strategy and portfolio management and reporting.

Hugh Peck

Hugh is the Chief Operating Officer at Six Park. He spent 5 years as the COO of Lifebroker, a leading online life insurance comparator in Australia. At Lifebroker, his responsibilities included sales and marketing, operations, compliance, IT and business development. He played a key role in securing the company's largest and most successful partnerships. Hugh previously worked at Computershare for seven years with most of that time spent in the U.S., Hong Kong and the UK where he worked on operations and technology integrations. He brings vast experience in process automation, digital business and marketing, operations and compliance.

David Blumenthal

David is the Director of Strategy and Analytics at Six Park, with more than 17 years of experience across the finance, investment and asset management sectors. He was a Director of the Australian division of DB Zwirn & Co, LP, a US$5 billion global alternative asset investment manager where he had responsibility for structuring and managing a diverse portfolio of debt, equity and hybrid investments in Australia and New Zealand. David also held various roles in principal investment and private equity at JP Morgan Partners and NM Rothschild & Sons, and began his career in the corporate advisory division of Credit Suisse.

Andrew Greig

As Director of Sales, Andrew brings 24 years as a highly effective senior sales and marketing executive driving profitable revenue and market share growth in highly dynamic companies. Prior to commencing a corporate career, Andrew previously was an owner/operator of a small retail business and was awarded NSW Entrepreneur of the Year.

Rosa Cheng

As Chief Financial Officer at Six Park, Rosa has more than 21 years of financial and accounting experience across a variety of senior level financial management roles and businesses. Prior to 2003, Rosa worked in Hong Kong for KPMG and the superannuation arm of the HSBC group for nine years. Since 2003, Rosa has acted as finance officer for Georgica Associates, a private investment management firm and was appointed company secretary in 2005. Rosa has also served as finance officer for a start-up technology business since 2009. She has extensive knowledge across auditing, financial reporting, operational management and compliance.

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