Switzer Super Report

Thursday 30 July 2015

The power of the Middle Kingdom

You know I haven't invested in China because I think it's hard to work out what's going on in this pretty secretive country. But Charlie Aitken has been a lot more bullish than I am. Today he writes about why the recent rout has revealed opportunities and there is value for contrarians and those who dare take the plunge. His timeframe is 12 to 18 months.

Also in the *Switzer Super Report* today, Paul Rickard analyses the new hybrid issue from Westpac, and Roger Montgomery takes a bite of a tasty Apple. In *Buy, Sell, Hold – what the brokers say*, Navitas and News Corp get upgrades, and *Short n' Sweet* has a look at BHP's big dividend promise.

And last but not least, our *Questions of the Week* examine Iress and the new listed investment company from Platinum, Platinum Asia.

Sincerely,

Peter Switzer

Inside this Issue

Should you bite this Apple?
by Roger Montgomery
02

02 **Should you bite this Apple?**
by Roger Montgomery

04 **Don't fight Beijing**
by Charlie Aitken

07 **Westpac's hybrid will be well supported**
by Paul Rickard

09 **Buy, Sell, Hold – what the brokers say**
by Staff Reporter

10 **Short n' Sweet – Can BHP keep its promises?**
by Penny Pryor

11 **Getting super into your spouse's account**
by Tony Negline

13 **Asian opportunities and Iress Market Technology**
by Questions of the Week

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Should you bite this Apple?

by Roger Montgomery

Key points

- *Despite being one of the largest companies in the world, Apple grew its third quarter sales by 33%.*
- *China now represents a quarter of the company's revenue and profits, compared to the US at 40%, and accounted for 60% of the growth.*
- *Apple's global share of premium sales had always been in the 60% range but our estimates have that number now much closer to 70% last quarter.*

As I sit and prepare to write about this company, I realise that it actually sounds quite boring. Everyone knows this company. The big sigh I can hear stems from this undeniable fact. But just maybe that sigh is a global one and the yawning is why the stock is trading for a cash-adjusted price to earnings ratio of about 10 times.

The company is Apple (NSDQ: AAPL) and I am legally obligated to disclose that both the Montgomery Global Fund and the Montaka Global Fund own shares in Apple.

Apple (NSDQ: AAPL)

Source: Yahoo!7 Finance, 30 July 2015

The numbers

Buying Apple shares is not only an investment in technology, growth and China, it is also, for Australian investors, an investment in maintaining international purchasing power as (or if) the Australian dollar declines further.

Recently, Apple shares fell more than 8% from their July highs because Apple missed consensus analyst expectations for the third quarter 2015. As an aside, when that happens, I always have to ask myself whose fault is that: the company's or the analysts'? Did the company miss expectations, or did the analysts miss?

But the numbers weren't at all bad. Despite being one of the largest companies in the world, Apple grew its third quarter sales by 33%. No, that is not a misprint!

The third quarter growth rate was the fastest the company had experienced in more than three years. What is particularly exciting is that much of the growth is coming from China – a country where many other industries are suffering from the decline in economic growth. In other words Apple's devices are so desirable they are enjoying economic immunity.

Back in 2009, the company earned US$42 billion in sales, in 2014 sales had reached US$182.8 billion and in 2015 that number was reached in the first three quarters alone. It could be exceeded by US$60 billion.

Of the US$49 billion in sales revenue, $13.2 billion came from China – up 112%. China now represents a quarter of the company's revenue and profits, compared to the US at 40%. China accounted for 60% of the growth, and units shipped grew by 87% versus China's smartphone market growth in units shipped of 5%.

The power of the iPhone

In China, the iPhone 6 has achieved icon or cult status, and globally the company is enjoying the benefits of the network effect.

We observe that Apple has the most valuable customers because they are higher spending and more desirable by both telco providers and merchants.

Developers of iOS apps make double the revenue of those on the Google Play store. Amazon's most profitable customers are on iPhones. Google's most profitable customers are on iPhones. Phone carriers' most profitable customers are on iPhones.

And because higher value customers are more desirable for app developers (they can charge more) more apps are developed for iPhone.

Obviously where there are more apps, that is where users will congregate. To use all those apps, you need an iPhone. And because of the higher revenue, apps are always developed first for iOS over Android.

Globally, Apple has enjoyed the highest ever switch rate from Android. Asking yourself how long this might last yields an interesting answer. You see, only 27% of iPhone owners have switched to iPhone 6 and in China 4G penetration is only 12%.

More stunning is just how quickly the growth might come. To date, phone switching or upgrading to iPhone has been predicated on an industry standard of two and three-year phone plans but phone companies are moving to one-year plans and any time upgrades.

Meanwhile, the global PC market is contracting at 12% per annum but Mac sales are growing at 9%.

AAPL's closed IOS operating system has a security advantage over Android, which may give it significant strategic advantages in the cashless payments environment. This is over and above the relative attractiveness of iPhone users greater propensity to spend.

Apple's iPhone market share is hovering around 20% of the total installed base of smart phones and was about 15% of smart phone sales last quarter. No other vendor offering a premium priced phone sells anywhere near the volume of the iPhone. Apple's global share of premium sales had always been in the 60% range but our estimates have that number now much closer to 70% last quarter.

According to Techpinion, Apple's share of premium smartphone sales in 2014 was ~65%. Samsung's was ~24%, and the others like LG, HTC, accounted for ~10%.

Not boring at all

After all that, it is reasonably safe to say that this is not a boring story at all. The question that remains is whether or not the shares are cheap. If you consider the cash on the balance sheet and remove it from the market capitalization of the company, you are effectively buying the business for just on 10 times earnings.

That compares to over 50 times for Domino's Pizza. No wonder the company is turning 180 degrees from Steve's Jobs rejection of Warren Buffett's advice to buy back [US$140 billion worth of] its shares.

Earlier in the year Apple borrowed $1.35 billion of Swiss-franc denominated debt in two tranches at "microscopic" interest rates of 0.28% and 0.74% and this was after borrowing US$6.5 billion, in 10-year notes and 30-year bonds at rates ranging from just 1.6 % to 3.5%. In total, the company has borrowed more than US$40B to buy back shares that like us, it believes are cheap.

Roger Montgomery is the founder of Montgomery Investment Management. The Montgomery Global Fund and the Montaka Global Fund own shares in Nasdaq listed APPL.

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Don't fight Beijing

by Charlie Aitken

Key points

- *The Hang Seng China Enterprises Index or HSCEI Index, if you believe the earnings forecasts, trades on 7.5x FY16 and a dividend yield of 4.2%.*
- *Obviously, Chinese GDP growth isn't "7%". It is probably growing at plus 4% per annum, which is still the fastest GDP growth rate in the world.*
- *Australian resource stocks will probably remain volatile trading instruments and it is best to approach them as trading stocks inside well-established lower trading ranges. BHP seems to consistently hold the $25.00 level, for example.*

Clearly, there has been a complete investor capitulation in all things China facing. From Chinese equities, through to Macau casinos, luxury goods stocks, commodities, commodity currencies and commodity equities, it has been a complete wipe out. There has been absolutely nowhere to hide.

Investors have shoulders slumped and losses have been large. The financial press and analyst community have become universally bearish, while hedge fund short positions are now very crowded. It seems even people who once liked China now hate it because they have lost money.

From Chinese mainland equity investors through to BHP Billiton shareholders, everyone has lost money. It is an absolutely textbook capitulation and reminds me of the peak of the European sovereign debt crisis back in 2011.

Back to the future

Remember back then when EVERYONE was an expert on Europe? Remember all those emails you got about the Eurozone breaking up when Spanish and Italian 10yr bonds were 9%? Well, fast-forward to today and the gains in EU equities and EU sovereign debt are between 80% and plus 120%. If you'd shut your eyes and bought the nadir of the "crisis" you would have made serious positive total returns.

We operate in an extremely instant world as I have written many, many times. The present is extremely efficiently priced, the future is not. The world analyses the present, not the future, and therein lies the investment edge for anyone with more than a one-day investment horizon.

This week I have never ever seen more written on China. Not even at the peak of the growth boom. China headlines and associated price action in a wide variety of China facing assets have absolutely dominated the press, research and trading screens.

Capitulation, forced selling (margin calls) and universally negative sentiment almost always turns out to be a value buying opportunity. It's been the hardest thing in the world to buy anything China facing this week, but I have done it for my fund as I believe there is genuine deep value and the potential to make positive total returns in the months and years ahead, as the consensus China negativity eases.

I am not looking for instant returns in the China facing instruments I have bought. I expect further volatility and sentiment swings. But if I look out 12 to 18 months, which is my investment horizon, I feel comfortable I will generate solid total returns.

We all forget it's actually easier to do that off a low base. There is now a very low (aka value) base in all things China facing. Even a slight recovery in absolute terms will generate solid percentage gain returns.

Bargain basement

While Australian investors look at resource stocks, my first move due to my global mandate has been Hong Kong listed China H shares. The Hang Seng China Enterprises Index or HSCEI Index, if you believe the earnings forecasts, trades on 7.5x FY16 and a dividend yield of 4.2%. This index includes mostly massive cap state owned enterprises (SOE's) and now trades on a record -42% discount to exactly the same bunch of stocks listed in Shanghai.

My thinking about buying the HSCEI index is firstly it appears to have double bottomed technically, secondly there is clear and present value, and thirdly I expect through time the -42% discount to A shares to narrow to -30% in the future. There was actually a period last year when H shares traded at a premium to A shares, so to forecast the discount to narrow to -30% is not a major call.

Obviously, Chinese GDP growth isn't "7%". My forecast is Chinese GDP is growing at plus 4% per annum. Yet let's put that in context: it's still the fastest GDP growth rate in the world and the GDP base in China expands each year.

It's somewhat stunning that the cheapest equity valuations in the world are now in the fastest growing major economy. Sure, China is an emerging economy as such, and we need to expect volatility in Chinese asset classes, but the value is clear in my view.

Commodity fog

Australia's view on China is clouded by commodity prices. Commodity prices have collapsed due to over-supply and the resurgent US dollar. If you look at Chinese demand for iron ore and oil, it's actually rising. The problem is supply has risen faster and all commodities are denominated in US dollars. I actually don't think commodity prices tell you ANYTHING about the Chinese economy. I think they tell you about an over-supply issue that won't be fixed in the short-term.

Australian resource stocks will probably remain volatile trading instruments in the months and years ahead. I will approach them as trading stocks inside well-established lower trading ranges. BHP seems to consistently hold the $25.00 level for example.

Fundamentally, I am interested in Chinese financials, Chinese consumer stocks and Chinese technology stocks. These are the major weightings in the HSCEI Index. The funny thing is lower commodity prices are fundamentally helpful to the commodity intense Chinese economy, which should retain inflationary pressures and allow further PBOC interest rate cuts and bank reserve ratio cuts.

What I also find amusing is the allegation Beijing is "rigging" the Chinese equity market. No doubt Beijing is trying to bring stability to domestic equities. That has been partially successful. However, is Beijing's behaviour any different to what the Bank of Japan (BOJ), Bank of England (BOE), Federal Reserve (FED) and European Central Bank (ECB) do in terms of quantitative easing (QE) and competitive currency devaluation? It's no different.

Intervention everywhere

In hindsight, the ECB's euro 1.1 trillion quantitative easing policy provided the platform to stabilise bond yields and, ultimately, support European equity markets. In fact, central bank policy is widely regarded as providing the major stimulus for asset prices generally since the GFC. So it's very surprising to read the almost universal criticism of the government support for Chinese equities with internal stabilisation polices. It's either indirect government support for asset prices through the central bank or direct government support for equities through a stabilisation fund. I just don't see the difference. Either way, looking back in a year's time I believe government intervention will be viewed as the inflection point for the Chinese equity market.

Let's face it, markets globally have NEVER seen more central bank and government intervention. China is just another market experiencing this global trend as every government plays a home-biased game.

You know I've said for years: *don't fight the Fed*. That was the right advice. Today I am telling you *don't fight Beijing*. I believe they will win this fight with the domestic equity market and their drive to get economic growth driven by consumer spending rather

than fixed asset investment. Just like the Fed, Beijing has very deep pockets and I believe they will eventually generate the same returns in risk assets by their policies.

My core investment philosophy is to place my biggest bets where value and central bank/government policy support collide. I think that's right now in Chinese equities and that's why I will continue to increase my bet inside what will be volatile short-term trading.

Remember, the idea is to "buy in gloom". Right now there is textbook "gloom" towards all things China facing. I think there's a clear contrarian opportunity in this gloom.

As Lord Rothschild said "*buy on cannons, sell on victory trumpets*". I tend to feel the cannons were firing in China this week.

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Westpac's hybrid will be well supported

by Paul Rickard

Key points

- *Westpac Capital Notes 3 will pay a quarterly distribution, expected to be fully franked.*
- *The distribution is set every three months at a fixed margin of 4.0% over the 90-day bank bill rate, and then adjusted for the company tax rate (to take into account the franking credit benefits).*
- *Westpac shareholders and security holders can apply for Westpac Capital Notes ($100 per security, minimum application $5,000) directly from Westpac when the offer opens next Monday. If applying through a broker firm offer, remember that your adviser, or their firm, is being paid a placement fee of 1.0% of your investment.*

Margins on bank hybrid securities have hit record highs, with Westpac launching a new issue that is offering to pay a margin of 4.0% over the 90-day bank bill. Effectively, this means an initial return of 6.15% per annum for the first 90 days.

Westpac has launched the third series of its Capital Notes. To be listed on the ASX under stock code WBCPF, the offer is due to open next Monday. Westpac is seeking to raise at least $750 million, which it will classify as 'Additional Tier 1 Capital'.

Hybrid securities have had a pretty rough trot over the last few months, as buyers remained on the sidelines and effective yields moved out in response to higher yields on bank ordinary shares. Towards the end of June, the effective yield on the benchmark PERLS VII issue from the CBA (CBAPD) traded as low as $90.50, an effective yield of over 4.5% (it was originally issued at a fixed margin of 2.8%). This has now moved higher in price, and at $93.50, is trading at an effective margin of just a fraction over 4.0%.

The Westpac Capital Notes are a little shorter than CBAPD, with an expected call date in only 5.5 years. So the issue margin of 4.0% is on the money in regard to the secondary market.

In the medium term, the work of the regulator (the Australian Prudential Regulation Authority) to strengthen the banks' capital ratios is a positive for hybrid investors. While the fear of capital raisings has sent yields on bank ordinary shares higher, this is ultimately a positive for hybrid investors as it means that it is less likely that the capital trigger events on these securities will ever be fired.

Westpac shareholders and security holders can apply for Westpac Capital Notes ($100 per security, minimum application $5,000) directly from Westpac when the offer opens next Monday. There is also a broker firm offer (available through CommSec, Morgans, UBS and many financial planners and advisers), however if applying through this offer, remember that your adviser, or their firm, is being paid a placement fee of 1.0% of your investment and that they therefore have an incentive to show you this offer.

Set out below are the key features of the Westpac Capital Notes. However as always, please review the Product Disclosure Statement before investing.

Westpac Capital Notes 3

These securities will pay a quarterly distribution, which is expected to be fully franked. The distribution is set every three months at a fixed margin of **4.0%** over the 90-day bank bill rate, and then adjusted for the company tax rate (to take into account the franking credit benefits).

With the 90-day bank bill rate around 2.15%, this implies a gross distribution rate of 6.15% per annum

for the first three months (2.15% plus 4.0%). The actual distribution in cash, which is fully franked, would then be 4.305% (6.15% x 0.70 = 4.305%).

Distributions are discretionary and subject to distribution payment conditions. If a distribution is not paid, it doesn't accrue and won't subsequently be paid. To protect Note holders from this discretion being misapplied, if a distribution is not paid, Westpac is then restricted from paying a dividend on its ordinary shares.

Conversion into Westpac shares

Westpac Capital Notes are perpetual and have no term. However, Westpac must (subject to a test) convert the Notes into ordinary shares on 22 March 2023 (in about 7.5 years). If conversion occurs, holders are issued Westpac ordinary shares at a 1% discount to the then weighted average market price. The test for the conversion is the price of Westpac ordinary shares at the time – provided they are higher than approximately $19.00, conversion occurs – otherwise, it is retested on the next and subsequent distribution date(s) until the test is met.

To qualify as Additional Tier 1 capital, there are two further mandatory conversion events – a 'capital trigger event' and a 'non-viability trigger event'. Under these tests, the Australian Prudential Regulatory Authority (APRA) can require Westpac to immediately convert the Capital Notes into ordinary shares if Westpac's Common Equity Tier 1 Capital Ratio falls below 5.125% (the ratio was 8.72% on 31/3/15 or 8.5% on a pro forma basis following the changes announced by APRA to risk weights for residential mortgages), or if it believes Westpac needs an injection of capital to remain viable. In these distressed circumstances, conversion would most likely result in a holder receiving considerably less than $100 of Westpac ordinary shares, as there is a cap on the maximum number of ordinary shares that can be issued.

Westpac also has a "once" only call option on 22 March 2021 (in about 5.5 years), when it can elect to redeem or transfer the Capital Notes by paying holders the face value of $100, or converting the Notes into Westpac ordinary shares.

Details of the issue are as follows:

Issue Size	$750m, with right to accept more or less
Security type	Perpetual, convertible, unsecured notes ('Capital Notes 3')
ASX listing	Stock code WBCPF, expected 9 September 2015
Issue price	$100 per Capital Note
Mandatory conversion date	22 March, 2023 (into ordinary shares at 1.0% discount)
Westpac optional conversion/redemption/transfer	22 March, 2021
Mandatory early conversion	Capital trigger event or non-viability trigger event
Distributions	Fully franked, floating, based on ((90-day bank bill + margin) x 0.70)
Margin	4.00% to 4.20% (final margin announced 5 August)
Distribution dates	Quarterly, 22 Dec, 22 Mar, 22 June, 22 September
Payment of distributions	Payable at Westpac's discretion and subject to distribution payment conditions. Non-cumulative. Dividend stopper on Westpac ordinary shares.
Ranking	Behind all deposits, senior debt, unsecured creditors, subordinated debt and subordinated notes; equal with preference shares and Westpac Capital Notes (WBCPD and WBCPE); ahead of Westpac ordinary shares.
Offer closes (scheduled)	1 September (Securityholder)
Issue date	8 September 2015
Minimum subscription	$5,000 or 50 Notes, then in multiples of $1,000 or 10 Notes

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Buy, Sell, Hold – what the brokers say 30/7

by Staff Reporter

In the good books

Credit Suisse upgraded Beach Energy (BPT) to Neutral from Underperform and UBS to Neutral from Sell. Buy/Hold/Sell 1/4/2 FY16 production guidance is down 11% on FY15. The decline is steeper than Credit Suisse expected as capex is also significantly lower but the broker upgrades based on the decline in share price. June quarter production was boosted by better output from the Cooper Basin JV and higher Western Flank oil volumes. UBS observes the company has shown cost discipline in the face of low oil prices and should benefit from drawing on gas in storage in FY16 to meet customer nominations rather than drilling expensive development wells.

Credit Suisse upgraded Navitas (NVT) to Neutral from Underperform. Buy/Hold/Sell 1/5/1 FY15 results were solid and above Credit Suisse's forecasts. The broker notes the improvement in university program margins, the first since FY11. Earnings are expected to be flat in FY16, reflecting a decline in university program earnings given there is growth expected in other divisions. Credit Suisse remains bullish on the long-term outlook for international student growth but expects the decline in numbers to accelerate for the next 12-18 months.

Macquarie upgraded News Corporation (NWS) to Outperform from Neutral. Buy/Hold/Sell 4/1/0 Macquarie upgrades ahead of News Corp's June Q result, following share price weakness. The broker expects News' earnings to rebound after cycling a number of one-off negatives and the curtailing of Education losses. FY16 guidance should be robust and capital management and M&A strategy will remain in focus.

Morgans upgraded Newcrest (NCM) to Add from Hold. Buy/Hold/Sell 2/1/5 The company's June quarter was strong with Lihir producing 20% more than it was nine months ago. Morgans believes margins should improve further as Cadia ramps up. Rating is upgraded following recent share price weakness.

In the not-so-good books

Deutsche Bank downgraded Suncorp (SUN) to Hold from Buy. Buy/Hold/Sell 1/5/2 Deutsche Bank envisages negligible top line growth for Australian general insurers over the past year heralds the onset of a cyclical downturn, the impact of which is yet to emerge. Despite this, the broker believes Suncorp's bank and life exposure should support slightly stronger group earnings growth compared with its peers in general insurance.

The above was compiled from reports on FNArena, which tabulates the views of eight major Australian and international stock brokers: BA-Merrill Lynch, CIMB, Citi, Credit Suisse, Deutsche Bank, JP Morgan, Macquarie and UBS.

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Short n' Sweet – Can BHP keep its promises?

by Penny Pryor

There's a new kid on the yield stock block. Make room for BHP – if CEO Andrew Mackenzie can keep his promises, that is.

Paul Rickard has been following BHP and its increasing dividends for a while now. He reported that he was impressed with its interim result back in February:

- Underlying EBIT of US$9.2 billion, down 25.5%
- Capital expenditure of US$6.4 billion, down 23%
- Free cash flow of US$4.1 billion, up 21%
- Interim dividend up 5% to 62 US cents per share
- Net debt down by US$0.8 billion to US$24.9 billion, for a gearing ratio of 22.4%.

Six months ago, Paul pointed out its confidence in its dividend payment and this statement issued by the company – "we remain committed to at least maintain or steadily increase our base dividend in every reporting period".

Of course, there are challenges for BHP – the falling price of its commodities immediately springs to mind, but it certainly is committed to its cost cutting program, as evidenced by announcements of job cuts in Melbourne earlier this week.

BHP will report its second half results on August 25 and Paul says that it's very important that CEO Andrew Mackenzie "tells the market whether he thinks he can deliver sufficient production efficiencies to offset the revenue fall, thereby allowing BHP to meet its promise to pay its base dividend."

If it doesn't, or if it goes back on its dividend promise, Paul may well be the first in line at the class action lawyers.

New standards

The Australian Securities and investments Commission (ASIC), although not the official regulator for SMSFs – that mantle goes to the Australian Taxation Office (ATO) – recently issued some guidance for advice provided to SMSFs that trustees should also take note of.

There are two information sheets. Sheet 205 Advice on self-managed superannuation funds: Disclosure of risks (INFO 205) and Information Sheet 206 Advice on self-managed superannuation funds: Disclosure of costs (INFO 206).

Trustees should know that ASIC is sticking to its suggested establishment amount of $200,000. "An SMSF with a starting balance of $200,000 or below is unlikely to be in the client's best interests and that advice to establish one below that threshold is more likely to be scrutinized by ASIC," the regulator said.

Watch what head of SMSF at Westpac, Sinclair Taylor, had to say about the guidance here.

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Getting super into your spouse's account

by Tony Negline

Key points

- *There are estate planning reasons to split superannuation contributions, to make sure your spouse gets a share of your assets.*
- *By splitting money with your spouse, you might be able to convert the Taxable component into Tax-free component, which will see no tax payable by your non-dependant beneficiaries on your death.*
- *Also, benefits paid out of super from age 60 are tax-free but there are no guarantees this will continue.*

There are a number of ways to transfer money into your spouse's superannuation account. One way is through the "withdraw and re-contribution" strategy.

You take a lump sum out of your super and your spouse contributes it to their super account. Issues to consider and check-off for this strategy include your ability to withdraw money from super, tax, transaction costs, the ability of your spouse to make a super contribution and contribution caps. With this strategy it's common for it to be done with hundreds of thousands of dollars in a single transaction. You can read more about it here.

But there is another way, via a transaction known as "contribution splitting", which occurs inside your super fund's member and financial records.

Why split your super with your spouse?

Firstly, there might be estate-planning reasons – that is, you want to transfer some of your super money into your spouse's name now to safeguard against claims against that money after death.

Secondly you might want to ensure that your non-dependant beneficiaries, such as adult children, pay less tax when they receive money from your fund when you and your spouse have died. When you die, your super benefit's taxable component will be taxed at 15% plus Medicare Levy when paid to non-dependants.

By splitting money with your spouse, you might be able to convert the taxable component into a tax-free component, which will see no tax payable by your non-dependant beneficiaries.

Thirdly, benefits paid out of super from age 60 are tax-free but there are no guarantees this will continue. Who knows what policy changes will be made in future years, but splitting your super with your spouse seems a reasonably simple way to avoid future adverse policy changes, if additional taxes applies to individual member accounts and not the assets of a super fund.

How to do it

There are some specific SMSF issues when it comes to contribution splitting that your need to consider.

1. Your SMSF fund's trust deed – does it permit your contributions to be split with your spouse? If your deed is more than seven years old, it's more likely the answer is no. You may need to amend your trust deed to ensure you have the power to do this transaction.
For non-SMSFs – does your fund allow contribution splitting? Many large funds no longer have the administrative capacity for it.

2. Tax Office form or your administrator's own form – all you need do is complete this ATO form and hand it to your fund's administrator.

This form is easy to complete – there would be something wrong if it takes more than 10 minutes to

fill it out. Your spouse needs to sign it and it needs to be lodged with the fund the following financial year.

You can either nominate to split a specific dollar amount or up to 85% of the concessional contributions that have been made in the last financial year. (The 15% difference is to allow for contributions tax.)

3. Administration process – once your administrator receives this completed ATO form, they will obviously check it to make sure it's all correct and then process it. This simply involves moving the contributions from your member benefit account to your spouse's member benefit account. That is, your account falls while your spouse's increases. (If your spouse doesn't have an account in the fund then one can be created or they nominate another super fund on the ATO form.)

4. Administration fees – Your fund administrator may charge a fee to process the splitting form.

5. Your spouse – your spousal arrangement must be genuine and you must reside together; if your spouse is aged under 55 you can split contributions made last year to your fund; if your spouse is aged at least 55 and under 65 they can't be retired. If your spouse is aged at least 65 then contributions can't be split with them.

6. You can't split some contributions – you can only split Concessional Contributions – that is, employer contributions, salary sacrifice contributions or if self-employed, personal contributions you have claimed as a tax deduction or employer contributions.

7. Split contributions still count towards your cap – although the contributions are passed onto your spouse's member benefit account, they still count towards your concessional contribution cap for the financial year in which they hit the bank account

8. Time limit – for contributions made during the 2014/15 financial year, you must give the ATO notice to your fund's administrator by 30 June 2016. There are funny rules if you've taken a benefit out of your fund during the year, such as a lump sum or pension

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Asian opportunities and Iress Market Technology

by Questions of the Week

Q: Our SMSF has holdings in the Platinum International Fund, its European fund and also in Platinum Capital Listed, and we received an invitation to invest in Platinum's new Asia focused listed investment company (LIC) – PAI. Could you please comment on the relative merits of investing in PAI, as opposed to investing in the existing Platinum Asia Managed Fund?

A (by Paul Rickard): The key question is – do you want to invest in Asia (ex Japan)? If you do, this is a good vehicle to do it through (based on the track record of the manager, proposed management fee, listed investment company structure). If you don't, then go no further.

I wouldn't get too hung up about the "Priority Offer". This is a marketing strategy, and they will take over-subscriptions. You will be paying $1.00 for a share that is really worth $0.98 – due to broker placement fees. Okay, so they will throw in a free option to buy more shares at $1.00 – however in the medium term, this will potentially cap any rise in the share price as exercised options at $1.00 will dilute the overall asset value.

Bottom line – if you miss out in the IPO, you won't pay that much more, if at all, by buying the shares subsequently on the ASX.

As to the relative merits of the LIC versus the existing fund, I understand that the same investment strategy is to be deployed; as a quoted product, pricing should be more transparent; and that the fees in the LIC may be lower if it becomes big enough (1.1% per annum plus company expenses plus GST versus 1.54% per annum). A potential downside is that the LIC also pays a performance fee, whereas the managed fund doesn't do this in the standard option. There are also some tax differences.

Bottom line – I probably prefer the LIC – however if I was investing over $500,000, I would look at the managed fund and the performance fee/lower base fee option.

Q2: After reading the report a while ago, I bought some IRE shares. They have now dropped in value. Do you feel they are still worth holding?

A2 (By Paul Rickard): No one likes losing money on paper – however, I don't see anything remarkable in Iress's (IRE) recent share price. They peaked at $11.29 in February – at the moment at $10.31, they are off around 9%. The market peaked at 6,000 – at 5,660, it is off 6% – within the margin of error.

I am not aware of any recent news that has impacted Iress, apart from a small acquisition, or change of market sentiment.

According to FN Arena, the brokers are marginally positive. Sentiment is +0.3 (scale -1.0 is most negative to +1.0 most positive), consensus target price is $9.95.

Iress will report later this month – I think I would hold for the time being.

***Important**: This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*

Did you know?

In our latest *Switzer Super Session*, Paul Rickard and I discuss the hybrid market. It can be a little bit complicated but a new issue from Westpac is certainly worth investigating.