Switzer Super Report

Thursday 22 October 2015

Wake up!

What Australia needs right now is growth and to achieve this we need positivity. Charlie Aitken recently met with PM Malcolm Turnbull, and left the function very bullish about Australia's future. This is what I like to hear! Today, Charlie issues a wake up call to corporate Australia.

Also in the *Switzer Super Report*, Tony Featherstone reveals four stocks in the agribusiness sector that have long-term appeal, and in *Buy, Sell, Hold – what the brokers say*, brokers have downgraded Asciano, BHP and Newcrest Mining. In *Fundie's Favourite*, Sean Fenton looks at a 'liquid' stock – Treasury Wine Estates.

Sincerely,

Peter Switzer

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36-40 Queen Street, Woollahra, 2025
T: 1300 SWITZER (1300 794 8937) F: (02) 9327 4366

Wake up corporate Australia

by Charlie Aitken

Dear Switzer subscribers,

Last week I attended a small private dinner with the Prime Minister of Australia, Malcolm Turnbull.

It was a small gathering of private businessmen and women to discuss the economy with the PM.

To me, the economy is a "company" and the PM is the CEO. The Treasurer is the CFO.

On that basis, I attempt to assess our political leaders in the same way I assess listed company management.

I have to say I thought the Prime Minister's performance at this dinner was outstanding. I can say that without any bias.

He can annunciate his vision for the country, with a very specific focus on the economy. As a capitalist and investor, this was very heartening to hear.

Of course, talk is cheap and actions speak louder than words, but in my opinion, the economic debate leadership that the new PM is showing is what has been missing in this country for nearly a decade. Finally we have a PM who is economically literate. Our previous "CEOs" had zero real world experience in economics, markets or private business. Just sitting down and listening to Turnbull, you can see blatant evidence of this.

I am not going to break the confidence of those who were in the room, or the confidence of the PM, as it was a private function, but it's fair to say the main topics of the evenings conversation were major public infrastructure and how to fund it, cities, tourism, productivity, the lack of a corporate bond market, out of cycle mortgage rate hikes by banks, and broad taxation system reform. It was a very wide and hugely interesting conversation. It was one that made me VERY BULLISH about Australia's future.

That is important because I can report to you that offshore investors and offshore investment banks/brokers are very bearish/cautious on Australia's prospects as the economy transitions from a once in a generation mining investment boom back to a service and export-based economy.

The good news is we have a "growth", "innovation" and "reform" based PM, who appears not to believing in "shrinking to greatness". This is a key point that will be absolutely vital in shaking corporate Australia out of its confidence malaise.

My view is for the economy to grow, you need the Federal Government, State Governments, RBA, listed corporates and consumers all effectively "spending". Economic growth is about the velocity of money moving through the economy and the key variable is confidence.

As I have written hundreds of times, *"confidence is a derivative of leadership"*. My opinion is the "leadership" of Australia Pty Ltd has changed markedly for the better and there is a confidence upswing underway. More accurately, the lack of confidence has bottomed.

What we need next is for corporate Australia to start spending. Corporate Australia must start playing its role. The cost cutting to maintain dividends game is the wrong game. It's actually leading to GDP growth undershooting because cost cutting aimed at maintaining or growing dividends leads to a lower velocity of money through the economy. Yes, dividends are great for shareholders, but you need to know the flipside is lower than achievable economic growth.

Don't get me wrong. I have no issue with shareholders receiving a greater share of company profits. But a greater share of cost cut driven earnings growth or debt funded dividend growth is unsustainable.

At the end of the day, the best performing stocks over the long-term offer dividend GROWTH, not just dividend yield. Consistent dividend growth drives far greater share price performance than basis dividend yield. I'd rather buy a 3.5% consistently growing dividend yield than a stagnant 6.00% yield.

Corporate Australia needs to wake up and realise that you can't cost cut to greatness and you can't shrink to greatness. You need to GROW to greatness.

We may have already seen the peak of the so-called "yield trade". Therefore we may also have seen the peak of the "sugar hit" that ASX listed companies get in share price terms for raising dividend payout ratios. I think that's certain actually and we are actually starting to see ASX listed companies getting a " sugar hit" for spending money on GROWTH.

Recent examples of ASX listed companies being rewarded in share price terms for sensible GROWTH initiatives include Macquarie Group (MQG), Treasury Wine Estates (TWE), Servcorp (SRV), & Domino's (DMP). This is the start of a trend in my view where GROWTH will outperform YIELD.

At the portfolio strategy level, that's exactly what I am doing with the fund. We are strongly favouring global and local GROWTH stocks over basic dividend yield stocks. That doesn't mean we have abandoned our core strategy of Australia for income, rest of world for growth, but we have tilted far more to GROWTH (price to growth) where we see Boards and management teams sensibly allocating capital to future growth over current dividend payout ratios.

We also think GROWTH is quite hard to find so we are prepared to pay up a little for it in P/E terms. I gave you an example of that in Vitaco (VIT) a few weeks ago and it would appear the analyst community is starting to agree with us on that one. That little growth stock idea is performing well.

Remember, not all companies are created equal and not all stocks should have the same P/E. We focus on price to growth investing (PEG ratios) feeling in most cases structural growth stocks are cheap versus their future growth prospects. This is what I wrote about Macquarie Group (MQG) last week and why my team and I are looking all around the world for companies with those structural growth prospects. We have even bid into the Ferrari (RACE) IPO because we think it has those attributes.

If we end up with a portfolio with a higher prospective P/E and lower prospective dividend yield than the market, so be it. It will mean we have significantly more growth prospects in the portfolio and GROWTH is how you make money in the medium-term.

I'm headed overseas to look for some more of that growth this week and I will report back to you where I find it.

So I believe it's time to tilt to GROWTH, whether it's local or global growth. The boards and management teams of corporate Australia need to wake up quickly and realise GROWTH will be rewarded from this point, not simply dividend yield.

If they do, then all this chatter about Australian recessions will prove wrong and the Australian share market might actually get to Peter's 6000 target in the next few years. I can assure you we can't get to 6000 by cost cutting and high dividend payout ratios. We can ONLY get there by investing in GROWTH and generating earnings AND dividend GROWTH.

So my challenge to you, Peter Switzer, is to ask every company CEO who comes on your TV show *"how do you intend to GROW your business?"*

If we all want the country and share market to advance, that's the question we need to ask.

Liquid stock: Treasury Wine Estates

by Sean Fenton

How long have you held the stock?

Since October 2014

What do you like about it?

It has some attractive macro tailwinds, with a weakening $A and the emergence of the Asian consumer as a growth engine. The lower $A makes Australia's wine exports more competitive, as well as giving profits from its US Beringer wine business a translational boost.

Increasing incomes across Asia and China in particular have helped to drive increasing wine consumption, especially at the premium end. Treasury has been benefitting from this growth through its Penfolds and Wolf Blass labels.

There has been a slowdown in growth at the ultra-premium end, with China's corruption crackdown, but this seems to be impacting more on French Bordeaux. Treasury is still seeing strong growth in this segment.

How is it better than its competitors?

The company has world-class brands, with a strong distribution network and a diversified grape supply. It has a more focussed approach in the luxury and masstige segments in the US and Asia.

What do you like about its management?

Michael Clarke has now been on board as CEO for about 18 months and is having a material impact on the company. He has invested more heavily in consumer marketing to build the brand portfolio, while looking to cut costs by reducing overheads and optimising the supply chain.

What is your target price on X?

$9.50, but that would move higher if the $A continues to fall.

At what point would you sell it?

Other than a significant appreciation in the share price, a sharp bounce in the $A would take the shine off the earnings outlook and could lead to a reassessment. While industrial activity in China has been weakening, retail sales have been growing strongly in line with incomes.

A hard landing in China and a slowdown in consumption growth could also dent the company's earnings prospects.

How much has it added (subtracted) to your overall portfolio over the last 12 months?

It has added over 1% to portfolio performance in excess of the market.

Is it a liquid stock?

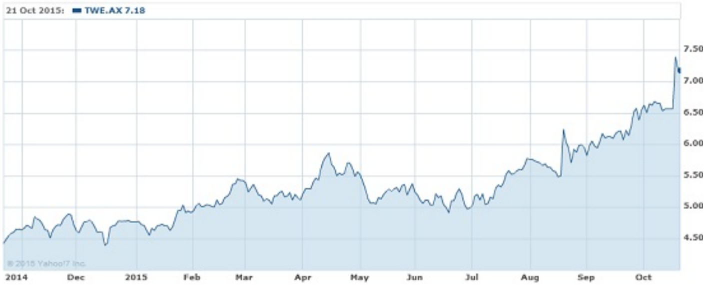
Yes, it is in the top 100 largest stocks listed on the ASX and turnover recently has been in excess of $20 million per day.

Where do you see the value?

The company's core strength is the quality of its wine and brand strength, particularly at the luxury end of the market. Shifting consumer preferences towards wine consumption and the emergence of a wealthy consumer across Asian markets will help to drive growth.

New management are doing a good job of refocussing the company to leverage off these strengths. The recent acquisition of Diageo's wine brands at a good price will also deliver significant synergies and EPS accretion.

Treasury Wine Estates (TWE)



Source: *Yahoo!7 Finance, 22 October 2015*

**Sean Fenton is Portfolio manager with Tribeca Investment Partners. Tribeca funds are distributed by Grant Samuel Funds Management.*

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Four agribusiness stocks for the long term

by Tony Featherstone

Agribusiness stocks are a bright spot in an otherwise gloomy share market. Several have rallied this year as the lower Australian dollar, free-trade agreements and expectations of sharply higher food demand from Asia boost sentiment.

Organic food producer Bellamy's Australia; almond grower Select Harvests; livestock-feed producer Ridley Corp; egg producer Farm Pride Foods; and Elders and Capilano Honey are among the market's best-performing small-cap industrial stocks over one year.

Agribusinesses are prominent in the Initial Public Offerings (IPO) market this year. MG Unit Trust, which provides exposure to the Murray Goulburn dairy co-operative, raised $439 million. Australia's largest fruit and vegetable producer, Costa Group Holdings, raised $550 million, and Beston Global Food Company raised $100 million.

The gains have come, despite fears about the return of El Niño conditions to eastern Australia in the next two years and forecasts of declining rainfall. Weaker soft-commodity prices, cushioned for local exporters by the lower Australian dollar, are another concern, if economic growth in Asia slows.

Moreover, sharply higher valuations for some ASX-listed agribusiness stocks could prompt investors to ask whether the easy gains are over and if the sector is overvalued at current prices. Caution is warranted given growing hype about exporting food to Asia.

But the long-term thematic for agribusiness is compelling. As the world population grows from 7 billion to an estimated 9.7 billion by 2050, and as an extra 2 billion middle-class Asian consumers upgrade their diets within 15 years, food demand will soar. Australia is superbly positioned for the so-called "dining boom".

At the same time, chronic underinvestment in the global food chain will create opportunity for food handlers, storage providers and distributors. Transport companies that better integrate food supply chains across Asia have great potential.

Different investment approaches

Long-term portfolio investors need to play the sector differently than active investors. Those with a short-term perspective should focus on smaller agriculture stocks that have higher leverage to single commodities – the well-run Select Harvests is an example. These agribusiness stocks need to be traded out of cycle, much like mining stocks.

Portfolio investors should, ideally, take a global approach to agribusiness and use a specialist managed fund. Investing globally can diversify weather, geopolitical, commodity and country risks. Also, El Niño conditions strengthen the case to use a global fund that can avoid drought-affected areas in Australia, in what is shaping up as a torrid summer.

Paying specialist agribusiness managers to manage your money in this sector makes sense. Weather and geopolitical events that affect food supply add another layer of complexity compared with other sectors. This is not an industry for novice investors, such are the risks.

But there are not many Australian agribusiness funds available. Only a handful specialise in global agribusiness and the sector has traditionally struggled to attract significant institutional capital, although that is starting to change. The Colonial First State Global Soft Commodity Share Fund is the pick of the locally run agribusiness funds.

Long-term portfolio investors who prefer to invest directly in Australian stocks for agribusiness exposure should consider larger companies that supply critical inputs for farms, and are benefiting from operational restructures or other initiatives. Here are some to consider:

1. Incitec Pivot

The producer of fertilisers and industrial explosives has good prospects as its ammonia plant in Louisiana in the United States starts in the second half of next year. The plant's commissioning will drive a new leg of earnings growth, reduce debt, strengthen the balance sheet, and help Incitec return cash to shareholders through higher dividends or share buybacks.

Incitec benefits from a lower Australian dollar, and weaker gas prices are partly offsetting expectations of lower ammonia prices (gas is a key input in the ammonia production process). Most ammonia production is used for crop fertilisers.

Incitec has rallied from a 52-week low of $2.72 to $3.87 this year. As the ammonia plant moves towards production, operational and commissioning risk is receding and the company is moving past its large capital-investment hump. It has timed its investment well, given expected strong fertiliser demand in Asia and the need to improve crop productivity.

Its explosives business Dyno Nobel has been affected by the mining sector's downturn. The good news is that prospective investors in Incitec are buying Dyno Noble towards the low point in the resource sector. Good cost-management is helping that business.

Seven of 14 analysts who cover Incitec Pivot have a buy or strong buy recommendation, four have a hold and three have a sell, consensus estimates show. A median share-price target of $4.09 suggests Incitec is fully valued at its current $3.87.

Incitec can do better than the consensus forecast. Macquarie Equities Research's 12-month target of $4.45 looks more reasonable. Incitec's share price is due for pause after the recent rally, but its position in supplying fertiliser inputs has long-term appeal.

Incitec Pivot

Source: Yahoo!7 Finance, 22 October 2015

2. Nufarm

The producer and distributor of crop-protection products has soared from a 52-week low of $4.28 to $8.25. A strong full-year earnings result and signs that Nufarm's operational restructure is paying off have boosted its shares.

Nufarm reported 4% growth in revenue to $2.7 billion and 18% growth in Earnings before Interest and Tax for 2014-15. A robust earnings recovery in the Australian business and improving performance in the US underpinned the better-than-expected result.

Nufarm's focus on improving its profit margins, rather than chasing greater share in global markets for herbicides, fungicides and pesticides, is working. Like Elders, another agribusiness stock, Nufarm has had a difficult, transformative corporate restructure and emerged in good shape. The earnings result confirmed Nufarm's potential to transform its operating performance and deliver a step change in earnings growth.

Three of 11 analysts have a buy recommendation, six have a hold, and three have a sell, consensus forecasts show. The median price target of $7.82 suggests Nufarm is overvalued. Some analysts believe the market is overestimating the long-term benefits from Nufarm's efficiency gains and underestimating the required capital investment.

Nufarm looks fully valued for now, but has more strategic value than its valuation suggests, given rising global demand for crop-production products in emerging markets. It could be a takeover target.

Nufarm has attractive prospects, but long-term investors should watch and wait for better value as some heat comes out of its share-price rally. On a forecast Price Earnings (PE) multiple of about 17 times, Nufarm trades at a premium to its much larger global peers such as Monsanto, Dow Chemical and Du Pont.

Nufarm

Source: Yahoo!7 Finance, 22 October 2015

3. Rural Funds Group

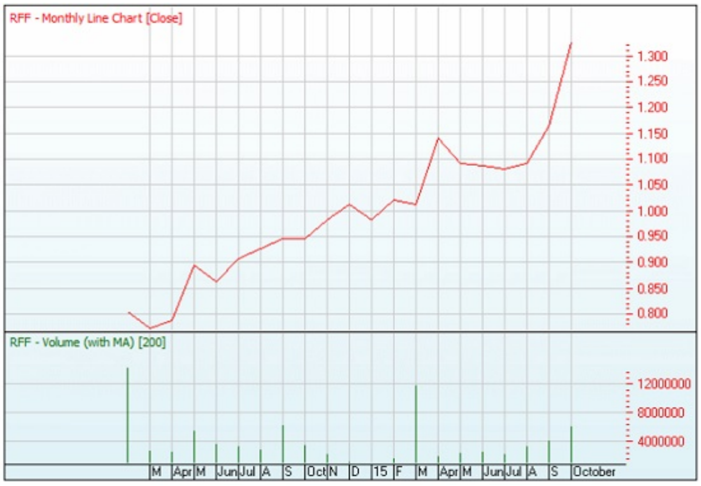
Australia's first listed agricultural property trust buys poultry farms, almond orchards and viticulture plantations and leases them to farmers. Its manager, Rural Funds Management, is a well-known agriculture investor.

The model of packaging farms into a listed or unlisted managed fund, popular in North America, is gaining traction in Australia. It provides investors with lower-risk exposure to agriculture, compared with owner food producers, and also a steady stream of capital growth from rising farm prices and income from the leases.

Rural Funds Group's $1.33 unit price compares with its adjusted Net Asset Value of $1.22 (which includes independent valuations of water entitlements), meaning it trades just above its asset backing. Several specialist Australian Real Estate Investment Trusts (A-REITs) are trading at much larger premiums to asset backing and are best avoided at current prices.

Rural Funds Group's distribution guidance for 2015-16, 8.93¢ per unit, implies a 6.7% yield. As a diversified land owner, it is a lower-risk play on agribusiness than investing in farm producers or soft commodities – and one of a few ways to access income from the sector through a diversified package of farms.

Rural Funds Group



Source: ASX, 22 October 2015

4. Lindsay Australia

Small-cap transport provider Lindsay Australia is often overlooked in agribusiness-related stories. It specialises in moving temperature-sensitive items, such as fresh produce, to major grocery distribution centres and chilled- and frozen-food manufacturers.

Its transport division contributes about three-quarters of revenue and the rural-supplies division, a seller and distributor of farming-input products, provides the rest.

Lindsay has rallied from a 52-week low of 35 cents to 45 cents. It's an interesting play on the Northern Queensland food bowl, which is well positioned geographically to export to Asia.

About 90% of Lindsay's revenue comes from food-related producers.

Lindsay has potential to expand into new markets and extend its logistics services. Similar to Rural Funds Group, it suits experienced investors who are comfortable with less-liquid, small-cap securities.

Lindsay Australia

Source: Yahoo!7 Finance, 22 October 2015

Tony Featherstone is a former managing editor of BRW and Shares magazines. This column does not imply any stock recommendations or offer financial advice. Readers should do further research of their own or talk to their adviser before acting on themes in this article. All prices and analysis at 21 October, 2015

Buy, Sell, Hold – what the brokers say

by Staff Reporter

In the not-so-good books

Credit Suisse has downgraded Asciano (AIO) to Underperform from Outperform. Credit Suisse suspects that to get ACCC approval of the Brookfield acquisition, there needs to be significant changes to the regulatory framework for Brookfield rail and the Dalrymple Bay coal terminal. This could change the risk/reward profile for Brookfield and require a lengthy process. Credit Suisse lowers its valuation of Asciano to a standalone basis and downgrades to Underperform from Outperform.

Citi has downgraded BHP Billiton (BHP) to Neutral from Buy. Citi analysts found BHP delivered a "solid" quarterly production report, but incorporating the latest commodity prices forecasts has once again triggered further reductions to profit estimates. This time, copper and coking coal are the main culprits, only partially offset by a mark-to-market upgrade for iron ore. Reductions in forecasts have triggered a fall in price target; $24 instead of $26. Rating has been downgraded to Neutral from Buy. On Citi's calculations further cuts to capex would need to be made "given the progressive dividend policy appears to be sacrosanct".

UBS has downgraded Mantra Group (MTR) to Neutral from Buy. The share price has appreciated 24% since the FY15 result and UBS observes, during this period, there has been continued downward pressure on the Australian dollar supporting the domestic travel market. Earnings are likely to be driven by growth in accommodation demand and new property additions to the company's portfolio. With this in mind, UBS downgrades to Neutral from Buy. Target is raised to $4.00 from $3.84.

Citi has downgraded Newcrest Mining (NCM) to Neutral from Buy. Citi has downgraded Newcrest Mining to Neutral from Buy, following what the analysts label a "softer, as expected" quarterly performance. The downgrade itself, explain the analysts, is based on valuation. The shares are up 11% in October. The analysts highlight Australia's largest gold producer (and copper) is in a much stronger position, both operationally and financially, than it was 12 months ago. Potential catalysts include AUD gold price, news of Cadia East ramp-up; mill throughput/recoveries and the optimisation study at Lihir.

Morgans has downgraded Newcrest Mining (NCM) to Hold from Add. The company's September quarter production was slightly short of Morgans' expectations. Maintenance issues tempered the upside but the broker expects a solid rebound in the December quarter. Morgans believes the company is in a comfortable position to reach the lower end of its 2.5-2.6m oz guidance. The broker downgrades to Hold from Add, given the stock is now trading close to valuation.

Citi has downgraded Regis Resources (RRL) to Neutral from Buy. Regis' Sep Q production beat Citi's forecast and costs came in lower. The broker has increased forecast earnings on a sight upgrade to gold price expectations. Sustained operational improvements at Duketon have seen Regis' share price rally 33% in a month and 66% in six months, hence Citi is pulling back its rating to Neutral.

Credit Suisse has downgraded Regis Resources (RRL) to Underperform from Neutral. The company has made a strong start to FY16, Credit Suisse observes, with a solid production outcome in the September quarter. Credit Suisse believes the outlook has materially improved, driven by significant exploration success. The broker downgrades to Underperform from Neutral given recent share price gains.

Deutsche Bank has downgraded Regis Resources (RRL) to Sell from Hold. The September quarter is tracking ahead of FY16 guidance, with the beat driven by Rosemont and gold output 21% above Deutsche Bank's forecasts. As Garden Well is incrementally improving the broker's attention is now on the attempts to add to mine life. Results from Baneygo impressed Deutsche Bank and nominal exploration value is raised to $100m from $50m.

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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Tax Act changes to LRBA welcome

by DBA Lawyers

By William Fettes, Lawyer and Bryce Figot Director, DBA Lawyers

The Federal Parliament recently passed legislation, which affects the tax treatment of limited recourse borrowing arrangements. The *Tax and Superannuation Laws Amendment (2015 Measures No. 2)* Act 2015 (Cth) ('Act') received Royal Asset on 16 September 2015.

We consider relevant aspects of the amendments made to the *Income Tax Assessment Act 1997* (Cth) ('ITAA 1997') below, including changes to the final legislation from the exposure draft which was released by Treasury on 19 January 2015.

Summary of the changes

The legislation clarifies the tax law treatment of bare/holding trusts, whereby a custodian entity holds an asset on bare/holding trust for the SMSF trustee as part of a limited recourse borrowing arrangement under s 67A of the *Superannuation Industry (Supervision) Act 1993 (Cth)*. As a consequence of the legislation, the bare/holding trust is ignored for income tax law purposes and the SMSF trustee as the investor and beneficiary is considered the owner of the asset. The Act implements a general 'look through' approach so that all the income tax consequences associated with the underlying asset held on bare/holding trust flow through to the SMSF trustee investor, including with respect to dividends and franking credits.

The 'look through' treatment also addresses certain CGT events, which can technically arise in the course of limited recourse borrowing arrangements, such as when the asset is transferred from the bare/holding trustee back to the SMSF trustee (i.e., CGT event E2), and when the SMSF trustee becomes absolutely entitled to the asset upon repayment of the final instalment (i.e., CGT event E5). Section 235-820(2) of the ITAA 1997 provides:

An act done in relation to an instalment trust asset of an instalment trust by the trustee of the trust is treated as if the act had been done by the investor (instead of by the trustee).

Example: A trustee disposes of the asset. Any capital gain or loss is made by the investor, not by the trustee.

The legislation also recognises the existing industry practice in relation to income tax returns not being prepared and lodged for the bare/holding trust. As the bare/holding trust effectively does not exist for income tax purposes under the ITAA 1997, no separate income tax return is required to be prepared by the bare/holding trust trustee and any income tax consequences in respect of the asset is to be recognised in the SMSF trustee's income tax return (refer to s 235-820(1) of the ITAA 1997).

GST

In the original draft legislation, the issue of GST was not addressed, leaving some uncertainty about whether a look through approach would apply in respect of GST.

There was some reason to believe that the ATO's concessionary approach to bare trusts generally in GSTR 2008/3 would also extend to bare/holding trusts as part of limited recourse borrowing arrangements. However, the duties of a bare/holding trustee under a limited recourse borrowing arrangement are arguably more extensive than the 'minor' trustee duties associated with bare trusts that the ATO expressly recognised in GSTR 2008/3.

Fortunately, the final legislation resolves these issues. Although the Act does not amend the *A New Tax System (Goods and Services Tax) Act 1999 (Cth)*, s 235-820(5) of the ITAA 1997 provides:

Any consequence arising under the GST Act for the trustee of the instalment trust, as a result of anything done in relation to the instalment trust asset, is treated as if it had arisen for the investor (instead of for the trustee), even if that consequence would not have arisen had the thing been done by or to the investor.

[Asterisks omitted]

Accordingly, the Act makes clear that the SMSF trustee is treated as the ultimate entity when making supplies and claiming input tax credits for GST purposes.

Stamp duty

The changes have no effect on stamp duty, which is determined according to laws in each State and Territory. Naturally, these laws vary across each jurisdiction and expert advice should be obtained to ensure duty efficiency.

Conclusion

Overall, the new legislation creates improved certainty in relation to the income tax treatment of bare/holding trusts utilised as part of limited recourse borrowing arrangements. The changes, which broadly ensure that all the income tax consequences of the custodian arrangement flow through to the SMSF trustee are welcome, particularly with the additional clarity that has been provided on the question of GST.

This article is for general information only and should not be relied upon without first seeking advice from an appropriately qualified professional.

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Pension payments and Telstra

by Questions of the Week

Question: Could you provide your opinion please as I have had conflicting advice.

I intend to withdraw $80,000 of pension payments during the 15/16 FY. The payments are to be lump sum payments, taxed using the low rate cap. The partial commutation payments would be counted towards, and meet, the minimum pension requirements of 4% of the pension account. The reason for this request is so I can earn $20,000 as a casual employee (then 100% salary sacrifice further income) and still have the pension payments as a tax free lump sum using my low rate cap.

If I am now classed as TRIP and no longer fully retired, I should still satisfy the "condition of release" as having sufficient "unrestricted non-preserved" benefits in the account-based pension.

Answer (by Tony Negline): Overall, I don't see a problem with what you wish to achieve.

Some provisos in relation to that view:

1. Pension documentation is up-to-date and permits full or partial commutation from a TRIP.
2. The super fund still has your unrestricted non-preserved amounts recorded as such.
3. You haven't used any low cap amounts in previous financial years.
4. Lump sums are properly documented including reducing your unrestricted benefits.
5. The minimum and maximum pension income payments have been determined using market value of assets.
6. The proposed pension payments do not exceed the allowed 10% maximum.
7. It may not be the most tax efficient exercise to only take $20,000 salary. Salary sacrifice super contributions will be taxed at 15% and you won't be paying anything like that on your income from employment. Ask your advisers/accountant to work out when you will pay an average (not the same as your marginal rate) of 15% tax on income and then go from there.

Question: Not so long ago Charlie Aitken was expounding the virtues of Telstra and a $7 + share price, as of today the share has dropped to $5.30. We haven't heard much from Charlie subsequently on the direction of TLS. Your view on TLS would be appreciated.

Answer (by Paul Rickard): I, like Charlie, have been wrong recently on Telstra. I wrote back on 17 August to hang on to your Telstra and buy more in dips (see here). Since then, the price performance has been pretty disappointing.

Your email prompted me to go back and have another close look – and I still can't see any real reason to change this view. I will be writing about this in Monday's *Switzer Super Report*.So, I am hanging on to mine – and in dips – looking to add.

PS. I haven't checked in with Charlie yet. I don't think they would be in his portfolio, as his focus is on growth – not low risk, tax advantaged income.

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Don't miss this!

In the latest Super Session, we give you the details on Westpac's $3.5 billion dollar capital raising.