Switzer Super Report
Advice you can trust

Thursday 12 May 2016

Linked to growth

With all eyes on the economy during this election campaign, “growth” seems to be one of the catchphrases we’ll be hearing a lot of in the coming weeks. Investors look for growth stocks too, so in today’s *Switzer Super Report*, Charlie Aitken takes a look at superannuation services mid-cap company Link Administration, which he believes has excellent medium-term growth prospects.

Also in today’s report, Tony Featherstone has tips on playing the cloud computing megatrend and reveals three stocks with potential. Plus, Melanie Dunn analyses the increase in the preservation age, and in this week’s *My SMSF* we look at an “aggressive investing” strategy.

Sincerely,

Peter Switzer

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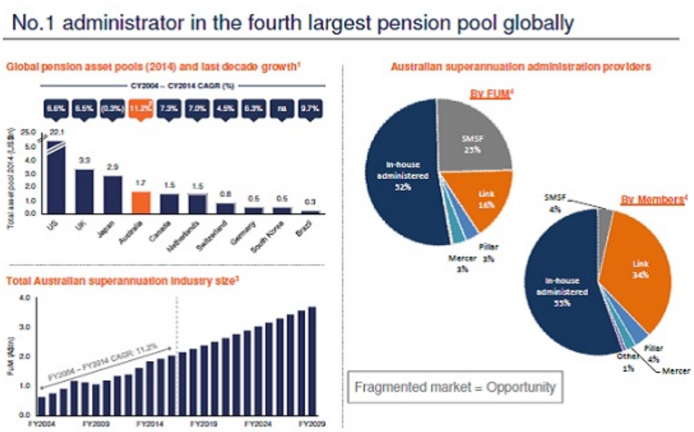
Link administration: a super story

by Charlie Aitken

Back in December I wrote on the investment case of Link Administration (LNK) and I thought today I'd update my view on a stock I believe has excellent medium-term growth prospects.

LNK is a classic *"top down meets bottom up"* mid-cap ($2.9b market cap) investment idea. It has strong top down leverage to the structural growth in the Australian superannuation system, and bottom up leverage via acquisition and cost out. LNK remains the no.1 play on the Australian superannuation services growth sector in my opinion.



Since I last wrote on LNK there has been a very well absorbed sell down of 15% of the company from its private equity owners, and interim result that was above prospectus, and a trading update given by the company last week at the Macquarie Australia Conference. All three of these events have given me even greater confidence in the LNK investment case and the AIM Global High Conviction Fund has increased its holding in LNK.

I am assuming most of you haven't heard of Link, or at least don't know much about it, although if you own Australian shares you have more than likely received fund administration services from them in one way or another.

To quote Macquarie's analyst on LNK, *"Linking it all together"* is what LNK does. That's a good way of thinking about LNK in terms of Australia's superannuation industry.

In a nutshell, LNK is the largest provider of fund administration services to Australia's superannuation industry. They are a leading provider of shareholder management and analytics, share registry and other value-added services to corporate clients in Australia and nine other countries. LNK's leading market positions are underpinned by the functionality and integration of its proprietary technology platforms.

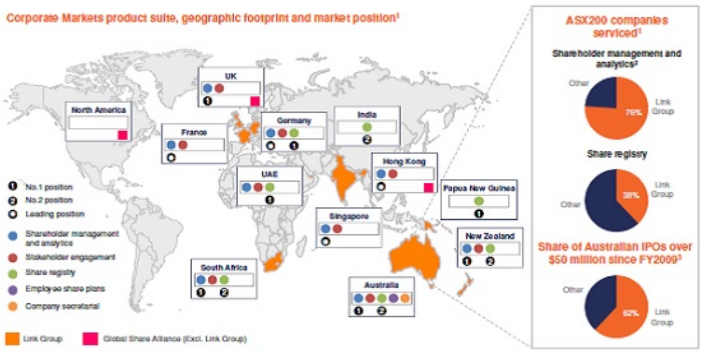
These proprietary technology platforms are considered market leading. They administer financial ownership data for over 2,300 clients globally, which services an underlying base of 10 million superannuation account holders and over 20 million individual shareholders.

Our operational scale

The fund administration business accounts for over 60% of gross revenue, while corporate markets and information, digital and data account for the other 40%, evenly split. Australia and New Zealand account for nearly 90% of group revenue.

Leading player in all key Corporate Markets geographies

Link Group provides a comprehensive corporate markets solution, delivered through a single, integrated platform. Link Group is a leading player in all key markets in which it operates.



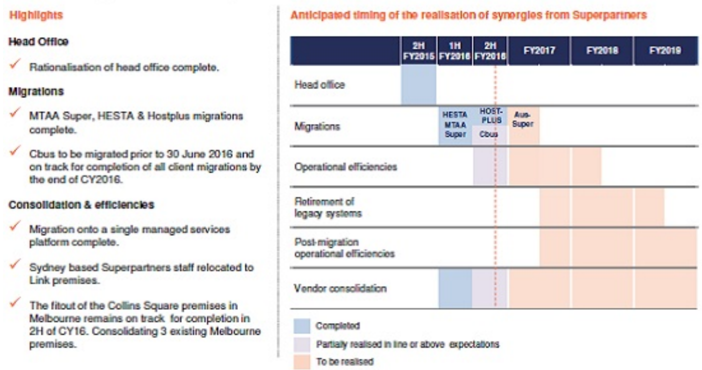
Scale is LNK's greatest advantage. There should be no doubt that LNK has a scale advantage in Australia, but most notably in the fund administration business. According to Macquarie Research, " *This scale, together with the operational efficiencies provided by the significant investment in technology, has established Link Group as a low-cost, high–quality service provider which in our view is uniquely positioned to capitalise on the growth of the Australian superannuation sector".*

"The Fund Administration business has established a significant scale advantage post the Superpartners acquisition (doubled revenues), with 9.3m members as at June 2015. This is several times the size of the nearest two largest competitors (Pillar & Mercer). This scale, together with its significant investment in its platforms, allows LNK to provide administration services to superannuation funds at a lower cost than competitors which creates substantial barriers to entry".

That SuperPartners deal was the one that cemented the investment case and growth profile for LNK. There are very substantial synergies as LNK migrate clients onto their own platforms. Synergies could be as high as $100 million which is a key driver of future earnings growth.

Superpartners integration on track

The Superpartners integration remains on track to complete all client migrations by the end of this calendar year and realise significant operational efficiencies



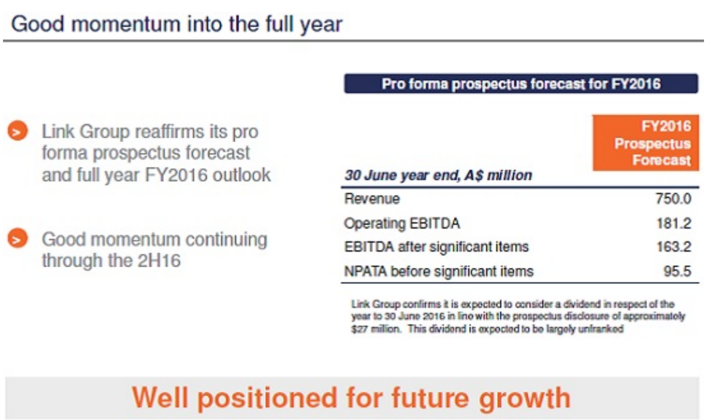
It's worth remembering, however, that LNK is not a newcomer to delivering GROWTH. Between 2002-2015 LNK delivered a compound average growth rate (CAGR) of +22% at the revenue level and +25% at the EBITDA level. For the FY16 year as a listed company, analysts estimate another year of +27% revenue growth translating to +22% EBITDA growth. EPS should grow +20% or slightly more.

As 90% of revenues are recurring, visibility is high in terms of forecasting. Let's have a look at the investment arithmetic for LNK in the years ahead using consensus forecasts.

Link (LNK)	FY17	FY18	FY19
Revenue	$775m	$785m	$810m
EBIT	$140m	$170m	$200m
NPAT	$115m	$135m	$155m
EPS	32c	38c	44c
EPS Growth	20%	19%	16%
DPS	19c	22c	26c
ROE	19%	23%	24%
EV/EBITDA	14x	12x	11x
Net debt/equity	34%	24%	11%
PE	25x	20x	16.5x

All those forecasts are moving in the right direction. Revenue growth, earnings growth, dividend growth, ROE growth, debt coming down. Free cash is also increasing each year in the forecast period.

Outlook was also confirmed which is another positive.



As you know my core investment approach is "price to growth", or PEG ratio investing. LNK offers 3 years of solid double digit EPS growth (forecast) and is trading on a PEG ratio of slightly over 1x in each of the forecast years

To me that is cheap for a structural growth stock in what is a legislated structural growth sector. That growth sector could even see further legislative support if compulsory superannuation contributions increase in the years ahead (likely).

LNK is another classic "AIM Investments" idea. It meets and exceeds all the variables we look for in an investment and we have built a significant holding in the stock in line with the medium-term investment thesis above.

I really feel this could prove a structural grower, in an earnings and dividend upgrade cycle over the next few years.

LNK is one way we have increased our exposure to Australia, but it is exposure to a structural growth sector in what we believe will be a structural growth stock. Structural growth is NEVER cheap on raw P/E's and ALWAYS trades at a P/E premium to the broader, somewhat growthless, large cap Australian market. The P/E is higher because the GROWTH is higher and sustainable.

Our final attraction to LNK is it is not beyond the realms of possibility that it becomes a takeover target (through time) for a global player looking for exposure to the Australian superannuation system.

This is a genuine larger mid-cap industrial stock that we feel has a bright future.

Playing the cloud-computing megatrend

by Tony Featherstone

Investors have a habit of being seduced by megatrends and ignoring company valuations. They focus on the trend and forget the market has already priced in its potential.

Some megatrend stocks overshoot as hype builds and inevitably plunge as reality takes over. Investors, burned by the trend, give up on the stock just as company valuations start to appeal.

Consider cloud computing, one of the technology sector's great megatrends as companies use remote servers to store, manage and process data. As consumers and organisations download more digital-rich content, such as video, data-storage services are tipped to boom.

Spending on public cloud infrastructure is forecast to reach US$173 billion in 2026, from US$38 billion in 2015, according to statistics portal Statista.

Morgan Stanley predicts Microsoft Corp will earn 30% of its revenue from cloud products by 2018. Research group IDC predicts cloud IT infrastructure spending will be 46% of total expenditure on enterprise IT infrastructure by 2019.

I could go on with other forecasts of a cloud-service boom (Forbes online in March 2016 had an excellent summary of cloud industry reports). But suffice to say that companies have to spend a lot more on managing data offsite in the coming digital era.

That's good news for leading software-as-a-service (SAAS) companies and providers of cloud hardware, such as data-storage infrastructure. But the market is well aware of this trend and Australian investors arguably got too excited about it in the past two years.

Accounting software provider Xero is another example. It has outstanding prospects as more companies worldwide use its cloud-based platform to manage their financial accounts. And a valuation to match: $1.97 billion for a company that lost $44 million in the first half of FY16.

At its share-price peak of almost $42 in early 2014, Xero was worth around $5 billion and one investment bank dubbed it the "Apple of accounting" – a sure-fire sign of megatrend exuberance if ever there was one. Xero hit a 52-week low last year of $11.90 and now trades at $14.45.

Data centre provider NEXTDC has also had share-price volatility since it listed in 2010, but seems to be breaking out of previous price resistance. It has good prospects as more companies store information in NEXTDC state-of-the-art data centres.

These examples show why it often pays to stand aside with megatrend stocks until the initial hype fades, focus on valuations, and buy them when they are cheaper. Yes, valuing stocks that do not have earnings, in Xero's case, is hard work but other metrics, such as revenue multiples, can provide a valuation guide.

It also pays to look offshore for cloud-computing stocks. Our market has limited exposure to this trend and several emerging cloud-based tech stocks are too small and speculative. Some came to ASX in the past two years as backdoor listings through the shells of failed mining companies.

The iShares US Technology ETF, while not purely focused on cloud computing, provides exposure to a range of US tech giants, such as Microsoft Corp and Cisco Systems, which benefit from it. It trades on the New York Stock Exchange under the ticker code

IYW.

I mostly prefer cloud-based infrastructure providers to SAAS companies, with one exception (Xero), at least in Australia. It's a bit like buying the companies that provide the picks and shovels in mining booms rather than speculating on the explorers.

A limited group of ASX-listed stocks fit the bill, but most are small- or micro-cap stocks that suit experienced long-term investors, and are not for the faint-hearted. Here are some preferred ways to play the cloud-computing trend.

1. Xero

The New Zealand-based provider of cloud-based accounting software was a classic "unicorn" company. It established a multi-billion-dollar valuation, has a product with clear competitive advantages, stronger partner networks, and global ambition.

Almost 600,000 businesses use its software worldwide and a few I know rave about it. About 425,000 of those are in Australia and New Zealand, and the rest are mostly spread between the United Kingdom and the United States – two huge markets for Xero to crack.

The group's total revenue grew 71% in the first half of fiscal 2016 to $92.8 million and its average revenue per user was $30.70. A retention rate of 84% means Xero is keeping most of its customers each year and rapidly adding new ones.

Like all great SAAS companies, Xero has high profit margins (36% and rising as it eventually reduces its sales and marketing spend), recurring revenue, and can scale globally.

The market is willing to pay almost $2 billion for Xero because it believes rapid revenue growth will eventually turn into rapid earnings growth and justify the valuation.

Accounting software is a great business when it works. Ask any small business owners who get used to an accounting package about how likely they are to leave it. Good accounting software is about as "sticky" as products get and can create strong lifetime income per customer.

The big question with Xero is valuation. On Macquarie's numbers, Xero trades on a revenue multiple (enterprise value to sales) of about 6 times. That's the fourth-highest in a basket of 20 global SAAS stocks in Macquarie's analysis, but Xero is delivering faster revenue growth than most. It arguably should trade on a slightly higher revenue multiple, based on SAAS comparisons with leading software firms overseas.

Several prominent offshore SAAS stocks traded on a revenue multiple above 30 at their peak, and Xero has underperformed its global peer group this year.

Xero is not cheap, even after losing two thirds of its peak share price. But it looks a lot more interesting for long-term investors who want exposure to cloud-based providers, and for those who believe it can reverse its period of underperformance later this year.

Chart 1: Xero

Source: Yahoo!7 Finance

2. NextDC

The operator of data-storage centres has emerged as the go-to local stock for investors seeking cloud-computing exposure.

The Queensland company has cemented a valuable first-mover advantage with facilities in Sydney, Melbourne, Brisbane, Canberra and Perth.

NextDC listed on ASX in late 2010 through a $40 million float at $1 a share, and trades at $3.06 after rallying this year. The market cheered its FY16 half-year results, with revenue up 51% to $42.1 million and underlying earnings up 279% to $11.4 million.

NextDC expects full-year revenue to grow by 40-48% on FY15 and underlying earnings to rise 213-250% on FY15.

Rapid growth in earnings and improving capacity utilisation at its facilities is a relief for investors who backed the potential, but needed to see it translate quickly into profit.

NextDC has been among my favoured small-cap stocks in the past five years. I still don't believe the market fully appreciates the barriers to entry in data storage.

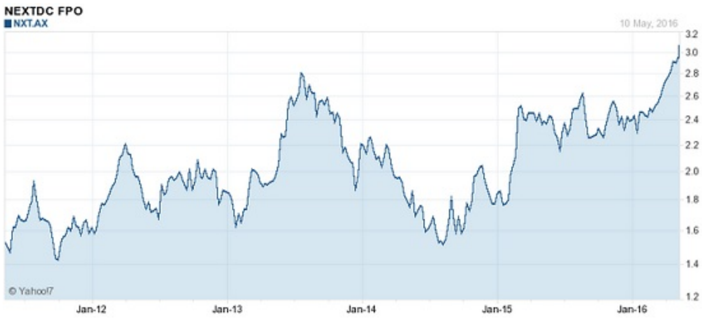
These high-tech facilities are not easy to replicate because they require inner-city locations that have plenty of access to energy and water, for cooling. NextDC has a valuable headstart on new industry entrants.

It looks superbly positioned to capitalise on growth in internet traffic and data storage in the next five years. But gains will be slower after its rally this year.

Six of 10 broking firms that cover NextDC have a buy recommendation, three have a hold and one has a sell. A consensus price target of $3.10 suggests it is fully valued.

That's probably right, but investors who are comfortable with small-cap stocks should wait and watch for better value. NextDC has attractive long-term prospects.

Chart 2: NextDC



Source: Yahoo!7 Finance

3. Asia Pacific Data Centre Group (AJD)

I have mentioned Asia Pacific Data Centre Group several times in columns for the *Switzer Super Report*, most recently in September. AJD has delivered a 20% total return (including distributions) over 12 months and rallied this year.

AJD is part of a new breed of specialist Australian Real Estate Investment Trusts (AREITs) that are producing good returns and its looks a lower-risk way to play the cloud-computing trend.

AJD owns data centres in Melbourne, Sydney and Perth. NEXTDC is the operator and it takes the risk of finding tenants for the buildings, and triple-net leases mean it pays for capital and maintenance – a big benefit to AJD.

At $1.41, AJD trades at a premium to its $1.25 Net Tangible Asset (NTA) backing. It has mostly traded at a discount since listing on ASX because of its tenant risk (it has one tenant in NextDC) and because its market was less familiar with specialist AREITs and cloud computing.

But NextDC's strong performance is mitigating risks for AJD and driving its unit price higher. Like NextDC, AJD is due for a share-price pullback or consolidation.

AJD will not produce the same types of return NextDC is capable of, but does not come with the same risk profile.

An expected yield of almost 7% is another attraction and it has good long-term potential as the value of data-centre properties rises.

Chart 3: Asia Pacific Data Centre Group

Source: Yahoo!7 Finance

Tony Featherstone is a former managing editor of BRW and Shares magazines. The column provides general information rather than specific advice or recommendations and takes no account of an investor's individual needs. 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 May 10, 2016.

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Are you too young to access super?

by Melanie Dunn

If you're thinking seriously about retirement, it's likely been a while since you were told "sorry, you're too young for that".

However, the recent increase to superannuation's preservation age might be just cause for you to reminisce. This is because you still might be younger than you think for some things, including accessing your super.

From 1 July last year the preservation age, that is the age at which you can access superannuation, increased. This includes drawing an income stream.

Preservation age is the youngest age that Australians can access their preserved superannuation savings without satisfying another condition of release. For example, in a self-managed superannuation fund (SMSF) it is common for members to use a transition to retirement (TTR) strategy as they approach retirement. Before they commence a TTR pension they must have reached their preservation age.

Prior to 1 July 2015 preservation age was 55-years-old. So anyone born before 1 July 1960 was able to access their superannuation benefits from age 55. Over the next ten years the preservation age will increase from 55-years-old to 60-years-old.

The increase in preservation age is nothing new; in fact these changes came in nearly 20 years ago, as part of the 1997-98 Federal Budget. However, since preservation age has been static at age 55 for a number of years this increase may catch some people by surprise.

It is important that SMSF trustees are aware of the age at which superannuation can be accessed. Any inadvertent or accidental payments to a member who is not yet eligible may breach the payment rules and could result in significant penalties.

The table below indicates the new preservation ages based on a person's date of birth, and the financial year in which they will be able to access their super.

Table 1: Preservation age based on date of birth

Date of birth	Preservation age	Financial year will reach preservation age
Before 1 July 1960	55	already attained
1 July 1960 – 30 June 1961	**56**	**2016-17**
1 July 1961 – 30 June 1962	57	2018-19
1 July 1962 – 30 June 1963	58	2020-21
1 July 1963 – 30 June 1964	59	2022-23
After 30 June 1964	60	1 July 2024 onwards when turn age 60

Those born after 30 June 1964 must now wait until 60-years-old to be eligible to access their superannuation. You might have to work longer than currently expected or rely on other non-superannuation savings in retirement until preservation age is met.

A member who turns 55-years-old this financial year **cannot** start a TTR pension or access their superannuation yet. Their preservation age is now age 56 which will be achieved next financial year.

Similarly someone turning 55 next financial year **cannot** start a TTR pension or access superannuation until they reach age 57 in financial year 2018-19.

What this means for your retirement

Remember to check your preservation age to avoid breaching the access to superannuation rules, when you are looking to access superannuation, or start a pension.

Case study: SMSF retiree looking to move into retirement

Consider James and Sam. They are good mates who play golf together on Sundays, and they each have an SMSF.

Last weekend at golf they were discussing retirement and how Sam's wife Lucy started receiving a pension from their SMSF last year when she turned 55.

James is single and would like to continue working a bit longer, but wants to reduce his hours. He mentioned that he was going to start a transition to retirement pension soon in his SMSF. Sam is hoping to retire at the end of this year so he and Lucy can go on a cruise.

Later that afternoon Sam came across this article talking about when members can access super…

Sam remembered that he attended James 55th birthday on 3 February 2016. Since his date of birth is 3 February 1961 James has a preservation age of 56. He would be eligible to start a TTR pension from 3 February 2017 when he turns age 56. Sam will give James a call and let him know he actually can't start a TTR pension until February next year and might want to delay reducing his hours at work.

Sam was born on 23 August 1961 and therefore has a preservation age a 57. He is quite surprised by this as it means he cannot access his superannuation until he turns 57 on 23 August 2018! If he retires this year he and Lucy will need to live off their other savings and Lucy's pension for nearly two years before he can access his own superannuation.

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My SMSF: Sarah Riegelhuth

by Sarah Riegelhuth

As co-founder of advisory firm Wealth Enhancers, Sarah Riegelhuth is not afraid to take some investment risks.

How big is your SMSF?

It is about $300,000

How many people in your fund?

My husband Finn Kelly and I.

Why did you start it up?

So that we could have control of our investments, and access to a broad range of investment options.

We have been maximising our concessional contributions for the past few years and will continue to do so, and that helps the fund grow faster.

What types of investments are in your SMSF?

We invest primarily in direct equities, but also have invested in several start-ups in the technology sector too. We're currently looking at purchasing a property.

We do our most aggressive investing in our SMSF as it is a much longer timeframe.

In terms of your approach 'aggressive investing', how do you minimise the risks?

I guess the way we see it, is that it's all about the timeframe. We are investing for 30+ years (realistically it's going to be invested for up to 70 years) so for us that takes a lot of the risk out of it. We look at our whole portfolio, both in-and-out of super and anything that is longer term (like property or start-ups) goes within the SMSF.

That way the illiquidity of a start-up investment doesn't matter as much or the fact that property is a 30-year investment doesn't matter because we won't ever want to use those funds (obviously because we can't legally) for a long time.

We have a large cash position in our personal names, but I wouldn't really see the point of having a large cash position within the SMSF.

And how have the start-ups come into your radar? How did you find them?

We found the start-ups through our network. We are very well connected within the entrepreneurial community globally. It is a big advantage we have and it is just something that has happened over the past five years.

We are also members of EO – Entrepreneurs Organisation and YEC – Young Entrepreneur Council and that provides us with a lot of access to these new companies.

What would be the breakdown of your portfolio?

Start-ups form less than 10% of our total net wealth (we have some outside of super from pre SMSF days), the rest of our total net wealth would be around 60% equities, managed funds, etc and 30% cash.

Do you use external providers/advisers?

We use Wealth Enhancers, our own firm to manage everything for us, but we don't advise ourselves, Rebecca Boles is our adviser.

We have a portion of equities that we directly invest in and we also use separately managed accounts in managing the other portion of our equity portfolio.

Was it more difficult to manage than you thought? Do you enjoy managing it?

For us, choosing investments is the easy/exciting part (that being said we are both professional and experienced financial advisers), but the administration of putting those investments in place, and managing the compliance and admin ongoing is not something I would ever want to do. That's why we use our own firm Wealth Enhancers and our partners (currently Superfund Wholesale) as we just don't have time to do all of that.

Are you happy with the performance of the fund? Can you provide any numbers?

The start-up investments won't really be worth anything until the companies are listed or sold. But our equity portfolio has done well and has delivered 7 to 10% average returns over the past three years.

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Buy, Sell, Hold – what the brokers say

by Staff Reporter

In the good books

Fletcher Building (FBU) upgraded by Citi to Buy from Neutral B/H/S: 5/1/0

Citi analysts have seen enough evidence to lift NZ construction activity forecasts over the medium term for a prolonged cycle. This has had a positive impact on expectations for Fletcher Building.

Macquarie Group (MQG) Upgraded by Deutsche Bank to Buy from Hold B/H/S: 4/2/1

A slowing of activity driven by global market volatility was evident in the FY16 results, Deutsche Bank maintains, but demonstrates the resilience of the business model. The broker does not believe the current valuation reflects Macquarie's better position versus its peers, given 70% of earnings are from annuity businesses. If the asset price environment becomes tougher the bank may struggle, although the risk appears to Deutsche Bank to be factored into the share price.

Mineral Resources (MIN) upgraded by Deutsche Bank to Buy from Hold B/H/S: 3/1/0

Deutsche Bank observes the shift in energy use is supported by improving economics for lithium ion batteries. Global battery consumption is set to increase fivefold over the next 10 years. The broker believes that companies with Tier 1 assets that generate strong margins and volume growth will outperform in this market. Mineral Resources has a stake in the Mt Marion hard rock project which is entering the market in the second half and will be the operator for the joint venture.

Origin Energy (ORG) upgraded by Ord Minnett to Accumulate from Hold B/H/S: 6/1/1

Ord Minnett expects Australian domestic gas prices to rise in all eastern states, because of increasing cost of supply and because Queensland producers have the option to export production if they don't get the price they demand. Origin Energy should benefit from these dynamics, hence the upgrade to Accumulate from Hold.

Orocobre (ORE) upgraded by Deutsche Bank to Buy from Hold B/H/S: 2/0/1

Deutsche Bank observes the shift in energy use is supported by improving economics for lithium ion batteries. Global battery consumption is set to increase fivefold over the next 10 years. The broker believes that companies with Tier 1 assets that generate strong margins and volume growth will outperform in this market. Orecobre is ramping up its Olaroz brine project and Deutsche Bank upgrades to Buy from Hold.

In the not-so-good books

APA (APA) downgraded by Ord Minnett to Hold from Buy B/H/S: 4/4/0

The stockbroker believes APA is increasingly challenged in the organic growth department. Hence the downgrade to Hold from Buy.

Charter Hall Retail REIT (CQR) downgraded by Citi to Sell from Neutral B/H/S: 0/2/4

There's no denying the strong outperformance of AREITs. Citi analysts calculate the sector is up some 50% over the past two years while the broader market's gains over the period hardly register. But the analysts now also believe further upside looks like a challenge. They have decided to issue five downgrades. Charter Hall Retail is one of them.

Downgrade to Sell from Neutral. No further changes made.

Capilano Honey (CZZ) downgrade by Morgans to Hold from Add B/H/S: 0/1/0

A warm start to the key winter sales period has likely resulted in the company discounting its product with major retailers, Morgans contends. The broker believes previous forecasts were too high, hence downwardly revises FY16 earnings by 12.5%. Morgans now forecasts FY16 profit to be up 34%. After a strong appreciation in the share price, the rating is downgraded to Hold from Add. The broker stresses it continues to rate the company highly.

CSR (CSR) downgraded by Morgan Stanley to Underweight from Equal-weight B/H/S: 3/2/2

Morgan Stanley expects group earnings will likely decline after the FY16 result as FY17 is considered likely to be the peak for key building products. The broker believes the recent stock performance implies earnings in FY17 that are too high and downgrades to Underweight from Equal-weight. In-Line sector view retained.

Dexus Property Group (DXS) downgraded by Citi to Sell from Neutral B/H/S: 1/1/3

Citi has downgraded 5 REITs (see comments for Charter Hall above).. Dexus Property is one of them. Downgrade to Sell from Neutral. No further changes made.

GPT Metro Office Fund (GMF) downgraded by Morgans to Hold from Add B/H/S: 0/1/1

Growthpoint (GOZ) has improved its bid terms, offering 0.3756 securities and $1.185 in cash per GPT Metro unit, for an implied consideration of $2.41. Independent directors intend to recommend the transaction, subject to due diligence and no superior proposal.

Medibank Private (MPL) downgraded by Macquarie to Neutral from Outperform B/H/S: 1/5/1

Quarterly releases from both Medibank and nib show strong profitability in FY16 to date, supported by the just released industry report for FY15. Macquarie expects both listed funds to deliver results ahead of current consensus and has set forecasts above-market. However investors have now pushed both stocks through Macquarie's target prices and hence the broker pulls back its rating on both to Neutral.

Mirvac Group (MGR) downgraded by Citi to Neutral from Buy B/H/S: 2/3/1

Citi has downgraded 5 REITs (see comments for Charter Hall above). Mirvac is one of them.

NIB (NHF) downgraded by Macquarie to Neutral from Outperform B/H/S: 1/6/0

Quarterly releases from both Medibank and nib show strong profitability in FY16 to date, supported by the just released industry report for FY15. Macquarie expects both listed funds to deliver results ahead of current consensus and has set forecasts above-market. However investors have now pushed both stocks through Macquarie's target prices and hence the broker pulls back its rating on both to Neutral.

Seek (SEK) downgraded by Morgans to Hold from Add B/H/S: 0/5/2

The company has received a second takeover bid for Zhaopin, which values its 63% stake at $830m. Morgans suspects the company's natural inclination is to hold onto the business, as it is a long way from reaching its potential. While the bid is an improvement on the first the broker believes, if Seek accepts, that it would be value destructive. Forecasts are downgraded to reflect higher amortisation of executive share scheme costs, lower interest income and higher levels of start-up losses.

Shopping Centres Australasia Property Group (SCP) downgraded by Citi to Sell from Neutral B/H/S: 0/1/5

Citi has downgraded 5 REITs (see comments for Charter Hall above). Shopping Centres Australasia is one of them.

Treasury Wine Estates (TWE) downgraded by Credit Suisse to Underperform from Neutral B/H/S: 1/4/2

The company's share price has rallied on the back of the retracement in the Australian dollar, Credit Suisse observes, and the stock continues to break away from peer valuations. Growth is expected to be a challenge, with the broker suspecting the integration of the Diageo assets will not be easy to tuck in.

Vicinity Centres (VCX) downgraded by Citi to Neutral from Buy B/H/S: 0/4/2

Citi has downgraded 5 REITs (see comments for Charter Hall above). Vicinity Centres is one of them.

Westfield Corporation (WFD) downgraded by UBS to Neutral from Buy

UBS has conducted an extensive review of 700 public mall and outlet properties across the US. The broker's deductions suggests Westfield's urban portfolio has a superior demographic compared with its US peers. Still, these favourable demographics and the development pipeline are largely seen reflected in pricing. The broker continues to like the exposure but believes it is prudent to pull back to Neutral from Buy.

Questions of the week – $1.6 million cap and concessional contributions and ETFs

by Questions of the Week

Question: If a person has more than $1.6 million in their super assets now, what will happen or will be required when the new rules come in with the excess $$?

Answer (by Paul Rickard): The Government has said that persons who currently have more than $1.6 million in pension accounts will be required to reduce this balance before 1 July 2017. They essentially have two choices to do this – make lump sum withdrawal(s), or rollover the excess into an accumulation account in super. My guess is that most people impacted by the change will do the latter, as even in accumulation phase, super is still an attractive investment vehicle.

Question: Peter & Paul, thank you very much for your thorough analysis of the budget impacts on super and I am hoping that you maybe able to answer my question below. I'm retired (genuinely not working) and currently 63 years young. I have all my super in pension phase and below the proposed $1.6 million cap.

I have maxed out on my NCC by being in excess of the $500,000 over the period from 1/7/2007 through to Budget night 2016. Is there any way I can make concessional contributions to take advantage of the $35,000 per year between now and July next year?

Answer: Yes, but you will need to meet the work test.

To do this, you will need to work 40 hours over any 30-day consecutive period. So, if you get paid employment for one full week, one day a week etc., you should qualify.

Generally, you will only need to meet the work test once in a financial year.

Question: Paul, I want to buy an ETF listed on the NYSE. It is DBA. I was wondering if there could be an ASX listed ETF holding roughly the same basket of commodities: corn, coffee…and if you would recommend it. Also, could you please give me the code for the best gold ETF, in your opinion, trading on the ASX?

Answer (by Paul Rickard): I can't readily see a comparable ETF listed on the ASX.

In terms of gold ETFs, there are three – two unhedged, one currency hedged. Betashares offers the currency hedged physical gold ETF, ASX Code QAU.

Unhedged, there is the GOLD ETF form ETF Securities, and ZBOL from ANZ ETFS. Both are physical gold, management fee of 0.40%. The GOLD ETF has been around a little longer and may have a deeper market. Very little to choose between the two.

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.*