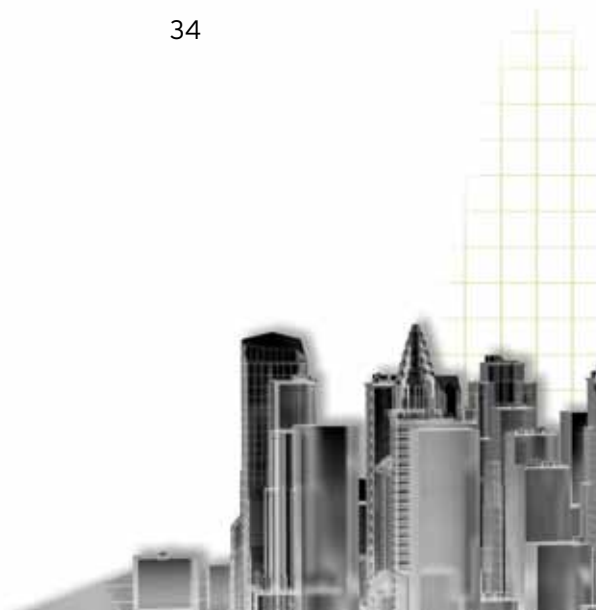


STATE OF THE *industry* 2014



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foreword

JOHN BROGDEN

The FSC is pleased to partner with UBS to produce, for the first time, a comprehensive summary of the financial services industry and its central place in the Australian economy.

The publication shows that financial services is the largest sector of the Australian economy, it pays the most corporate tax of any industry, and is a significant employer. Moreover, the jobs in the financial services industry are highly skilled, and highly remunerated.

Australians should be, and are, proud of our superannuation system, which is the envy of the world. Through superannuation all Australians own part of the economy. In short when financial services does well, we all do well.

The research shows that for much of the past two decades, financial services has grown at a substantially faster rate than the economy as a whole. As the mining boom moves from the investment phase to the extraction phase the industry's role as the largest in the economy will be more important.

Overall what this report shows is that financial services is more than just an industry to be regulated. It is an exporter, employer and generator of tax revenue and central to the success of the Australian economy.



A stylized, handwritten signature in black ink, appearing to read 'John Brogden'.

John Brogden
Chief Executive Officer
Financial Services Council

foreword **BRYCE DOHERTY**

Australia, with a population of just 23 million, is the fourth largest superannuation market in the world with assets held in superannuation funds of more than \$1.85 trillion. Over a third of this asset pool is now made up of Self-managed Super Funds (SMSF). The 30% growth of the SMSF sub sector makes it an integral component of this unique market and provides a significant opportunity for investment firms to service.

While the SMSF sector has received considerable media focus, there is often minimal attention to the performance of these funds and how we as an industry can better meet their needs. There is an obligation and an opportunity for the funds management industry to develop innovative products that provide access to attractive investment opportunities.

As an industry, we have a responsibility to educate and enable Australians to save for a comfortable retirement. With future government budgets coming under considerable stress, the responsibility of our industry to reduce the dependence of Australian retirees on government welfare has never been greater.

We are pleased to partner with the Financial Services Council (FSC) to commission this industry first comprehensive report. This year's report includes an analysis into the rapid growth of the SMSF sector, to better understand the motivation behind establishing a SMSF, as well as their investment allocation and considerations.



A handwritten signature in black ink, appearing to read 'Bryce D'.

Bryce Doherty
Head of Australasia
UBS Global Asset Management



INTRODUCTION

F*inancial services* and their associated industries play a crucial role across the Australian economy. Already, the financial and insurance services sector contributes \$130 billion to Gross Domestic Product (GDP), or nine per cent, annually. This is more than our total exports to China. It also makes financial services the largest industry in Australia.

Year-on-year, the sector contributes around \$18 billion in tax to the Australian Government –roughly equivalent to the forecast value of New South Wales’ entire electricity network.

While other industries such as manufacturing are slowing down, the financial and insurance services sector has continued to grow. In the aftermath of the Global Financial Crisis (GFC), a number of remarkable developments have occurred in the sector which are driving new and exciting opportunities for trade and economic growth. The ongoing evolution of the way Australians manage their superannuation is having a major impact on the growth of Australia’s emerging services economy.

By the beginning of 2014, Australia (with a population of just 23 million) had become the fourth largest superannuation market in the world, behind the United States (pop: 316 million), Japan (pop: 127 million) and the United Kingdom (pop: 64 million). The entire value of assets held in superannuation funds in Australia is currently more than \$1.85 trillion, or equivalent to 15 times the size of the Future Fund.

Financial services have become a major contributor to employment in the Australian economy. The financial services sector is one of the most well remunerated, well-educated and diverse sectors in the Australian economy. The industry already employs some 400,000 Australians; with more than half of that number women, and two thirds under the age of 45.

Within the financial services sector, the self-managed superannuation fund (SMSF) sub-sector has been growing substantially. Since 2009, the number of SMSFs grew by around 30 per cent with the total value of assets held growing from around \$320 billion to \$550 billion. Very little analysis has been done to understand the drivers of this growth and to understand what has motivated the move by so many people into SMSFs.

Now, research commissioned by the Financial Services Council and UBS has been able to understand the drivers behind this growth in self-managed super funds. The key drivers of this growth are the control SMSF holders feel they have over their investments and a decision to get away from the perceived high cost and low performance of industry and retail superannuation funds.

This is despite the fact that very few respondents report their SMSF performed as well as the industry-wide rate of return for superannuation entities with at least \$50m in assets for year ending June 2014.

The majority of those who were surveyed (59%) reported they set up their SMSF because they wanted more control and choice over their investments, suggesting it is a demand for flexibility rather than performance or service that is driving the growth in SMSFs.

For these reasons, a range of actors, from major financial institutions, retail and industry superannuation funds and financial advisers, are now seeking new ways of tapping into this growth market. Companies and individuals able to provide up-to-the-minute market intelligence or easy to use platforms (including apps) to assist SMSF holders grow their investments stand to capitalise on the growth of SMSFs.

As the largest industry contributor to Australia's tax base, a source of productivity growth, with room to grow as part of the services export sector, a potential industry leader in non-mining state economies and with a highly skilled and educated workforce, financial and insurance services will remain one of the key contributors to Australia's economy for the foreseeable future. The strength of the sector is now driving renewed calls for developing Australia as a financial services hub for the region.



KEYfacts

THE FINANCIAL AND INSURANCE SERVICES INDUSTRY

- Between 2013 and 2014, the financial and insurance services industry (FAIS) contributed \$130 billion AUD or nine per cent of GDP to the Australian economy. This makes financial services the largest sector, bigger than mining, and bigger than manufacturing.
- By mid 2014, the entire value of assets held in superannuation funds in Australia was approximately \$1.85 trillion, or 116 per cent of GDP.
- Australia (with a population of just 23 million) is the fourth largest superannuation market in the world, behind the United States (pop: 316 million), Japan (pop: 127 million) and the United Kingdom (pop: 64 million). Put in perspective, countries with much larger populations, such as Canada, the Netherlands, Germany, Brazil and France are well behind Australia in their value of assets held in superannuation.¹
- In 2012-2013, productivity growth in financial and insurance services outperformed the market for the first time since the GFC. Productivity growth in financial and insurance services for 2012-13 was at 3.31 per cent compared to 2.25 per cent across the market.
- More than 400,000 people were employed in the financial and insurance services industry in 2013, which is almost four per cent of the total Australian workforce.
- Nearly 70 per cent of people in the industry are aged 45 years or younger compared to 60 per cent per cent for all industries.
- 53 per cent of employees in the sector are women.
- The financial and insurance services sector contributes around \$18 billion annually in tax, far outstripping any other sector.
- In 2012-2013, financial services exports grew by 43 per cent from just over \$2 billion to \$2.9 billion. There is considerable room to grow these exports on the strength of the domestic industry.
- Financial and insurance services are now also making an increasingly prominent contribution to gross state product (GSP) in New South Wales, Victoria and South Australia. The sector contributes 11.5 per cent of GSP in NSW, 10.4 per cent in Victoria and and seven per cent in South Australia. This contribution is an important balance to the contribution of the mining sector in Western Australia and to a lesser degree Queensland and has driven employment and growth nationally.

¹ Austrade 2014

SELF-MANAGED SUPER FUNDS

Size of the Industry

- Self-managed superannuation funds are now the largest component of Australia's pool of superannuation funds - \$550 billion or over a third of Australia's superannuation pool.
- Since 2009 the total value of these assets has increased rapidly from around \$320 billion to \$550 billion.
- Since 2009, the number of SMSFs grew by around 30 per cent.
- SMSF holders appear quite engaged with their portfolio as almost two thirds of respondents (64%) reported they check their SMSF portfolio at least monthly, while around a quarter (26%) report they make changes to their SMSF at least monthly.
- The overwhelming majority of assets held in SMSFs are cash (35%), domestic equities (23%), managed funds (15%) and direct residential property (7%). Around one in ten respondents report they are leveraged for property (14%) or equities (10%).

Profile of SMSF Holders

- The most cited reason amongst respondents for choosing to set up an SMSF was because they wanted more control and choice regarding their investments (59%).
- While around one third (31%) of the sample reported they are retired, two in five (44%) report they did not contribute to their superannuation last year suggesting that SMSF holders have a high number of small business owners and contractors who chose not to contribute to their superannuation last year.
- Despite this, almost half of respondents (48%) reported they are likely to contribute about the same into their SMSF this financial year as they did last year. One in five (20%) report they will contribute more.
- Amongst those SMSF holders who are considering diversifying their portfolios, the most commonly cited consideration is international shares (15%).
- Around two in five respondents (43%) report they are likely to buy a product that provides an income stream from their SMSF.

Profile of SMSF Industry

- Less than ten per cent of firms providing SMSF advice and administration services were originally started with that express purpose.²
- The industry is typified by many small firms servicing 100 or less SMSFs that generally do not take advantage of technological innovations and automation.³

² SMSF Service Model Report, Macquarie SPAA 2014

³ Ibid.



- A number of major players in the sector are converging on the SMSF space with a range of products (including online platforms) and services to help SMSF holders grow their investments.



STATE OF THE *industry*

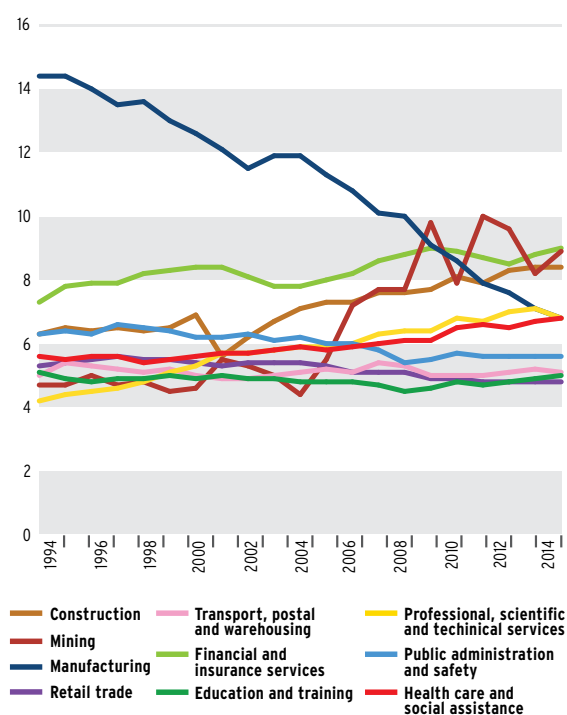
DRIVING AUSTRALIA'S ECONOMIC GROWTH

The *financial services* sector is a major driver of GDP growth and must be seen as one of the core industries underpinning Australia's economy.

Contribution to GDP

In the last financial year alone, the financial and insurance services sector provided the largest contribution to GDP at nine per cent. It was consistently the second-highest contributor to Australia's GDP throughout the 1990s and early 2000s, and is on track to remain at the top in the coming years and decades. **Figure 1** paints a picture of how Australia's top industries have been tracking since 1994. While steady growth is a major theme across all key industries, financial and insurance services has played a long term role as a core industry and contributor to GDP.

Figure 1. Percentage gross value added by industry to GDP 1994-2014

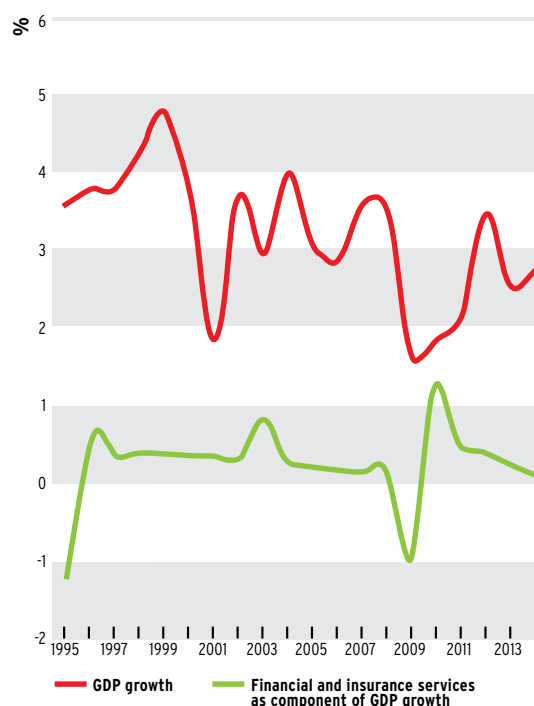


Source: ABS National Accounts

Component of GDP

Financial and insurance services as a component of GDP growth have been consistently positive since the mid 1990s, with the exception of the global financial crisis (GFC). International capital movement makes a trade-exposed economy like Australia's particularly susceptible to global economic phenomena; no industry more so than financial services, which acts as a conduit between Australia's economy and the world. As seen in **Figure 2**, the recovery of the sector post-GFC paved the way in its capacity as an enabling industry for the remainder of the economy to pick up.

Fig. 2: Financial and insurance services as a component of Australia's GDP growth, 1995 - 2014

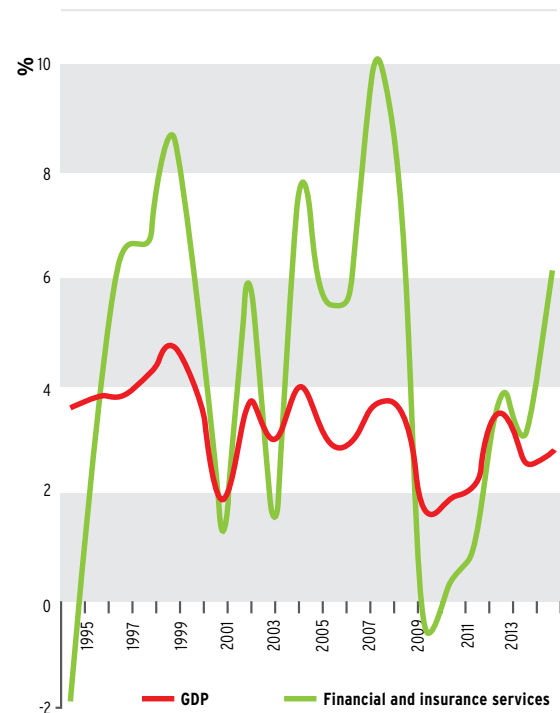


Source: ABS National Accounts

Comparison with GDP growth

When compared to GDP growth, the financial and insurance services sector is a lead indicator of the short-term future of the economy as a whole. See **Figure 3**.

Fig. 3: Financial and insurance services growth rate comparison to GDP growth, 1995 - 2014



Source: ABS National Accounts

Driving economic activity in the states

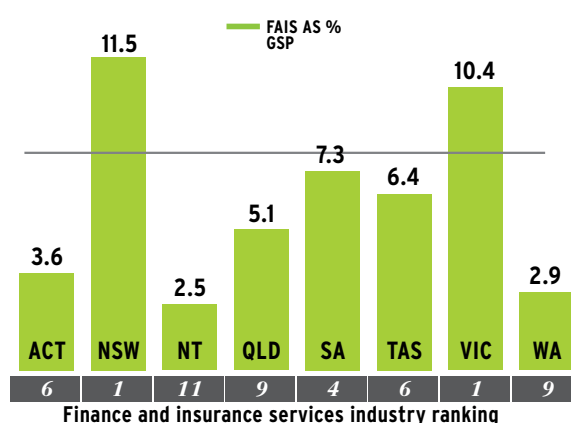
Financial and insurance services are now also making an increasingly prominent contribution to gross state product (GSP) in New South Wales, Victoria and South Australia. The sector contributes 11.5 per cent of GSP in NSW, 10.4 per cent in Victoria and seven per cent in South Australia. This contribution is an important balance to the contribution of the mining sector in Western Australia and to a lesser degree Queensland and has driven employment and growth nationally.

Though the industry is concentrated in the more populous states of New South Wales and Victoria, it also makes up a significant

component of the GSP in South Australia, Tasmania and Queensland. For the low and negative growth state economies of South Australia and Tasmania, fostering their financial and insurance services sectors is a potential pathway toward stronger growth.

Financial and insurance services comprise more than ten per cent of the gross state product (GSP) for New South Wales and Victoria, and are the leading contributor to GSP in both.

Fig. 4: Financial and insurance services contribution to GSP, FY2012-13



Source: ABS National Accounts

Productivity booster

Multifactor growth in financial and insurance services for 2012-13 was at 3.31 per cent beating the market sector which was at 2.25 per cent. This is the first time that the change in multi-factor productivity in the sector has beaten the market sector since before the GFC.

While the sector has experienced some volatility when compared with the rest of the economy, overall productivity growth has been good. Of note is that despite the fact that the highs in the sector are much higher than aggregate and the lows are lower, the period between 2004 to 2008 in **Figure 5**

demonstrates that when the sector is up, it is well above the market sector, while the lows between 2008 and 2012 are only marginally behind the market sector. Over the last five years, productivity growth in the financial and insurance services was seventh amongst other industries and it was beaten by the market aggregate. When measuring the trend out over the last ten years, multifactor productivity increases in the financial and insurance services industry (33.11 index points) have outstripped the market aggregate, and all but two other industries in the economy (mining 41.02 index points and construction 34.90 index points).

Fig. 5: Comparison financial and insurance services and aggregate market sector industries multi factor productivity, 2003-2013

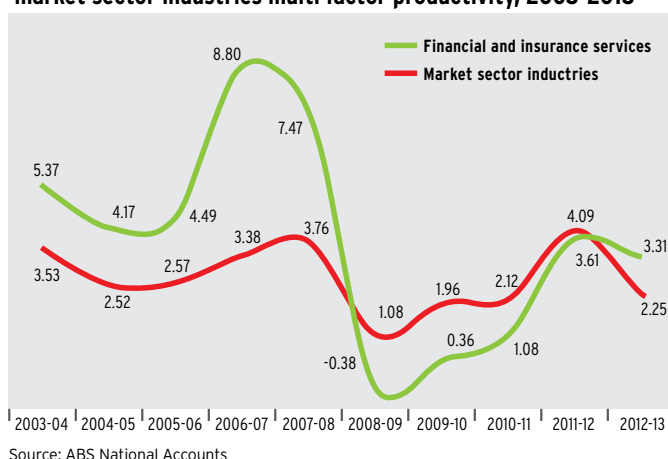


TABLE 1: Industry multi factor productivity change, 2003-2013*

Multifactor Productivity Index Change	1 year	5 year	10 year
Mining	9.15	24.46	41.02
Construction	0.53	13.08	34.90
Financial and Insurance Services	3.31	8.56	33.11
Professional, Scientific and Technical Services	2.79	19.47	31.31
Transport, Postal and Warehousing	2.57	10.92	27.10
Arts and Recreation Services	1.75	5.75	26.17
Wholesale Trade	4.48	12.29	24.28
Market Sector industries	2.25	10.44	23.75
Retail Trade	2.42	8.23	23.41
Information, Media and Telecommunications	-2.57	2.37	19.46
Rental, Hiring and Real Estate Services	3.21	12.00	13.83
Administrative and Support Services	5.13	5.01	12.61
Accommodation and Food Services	-0.14	4.70	11.05
Agriculture, Forestry and Fishing	-5.53	-1.85	10.10
Electricity, Gas, Water and Waste Services	-0.97	2.72	9.93
Manufacturing	-1.21	-0.94	-1.71
Other Services	-4.62	-0.55	3.57

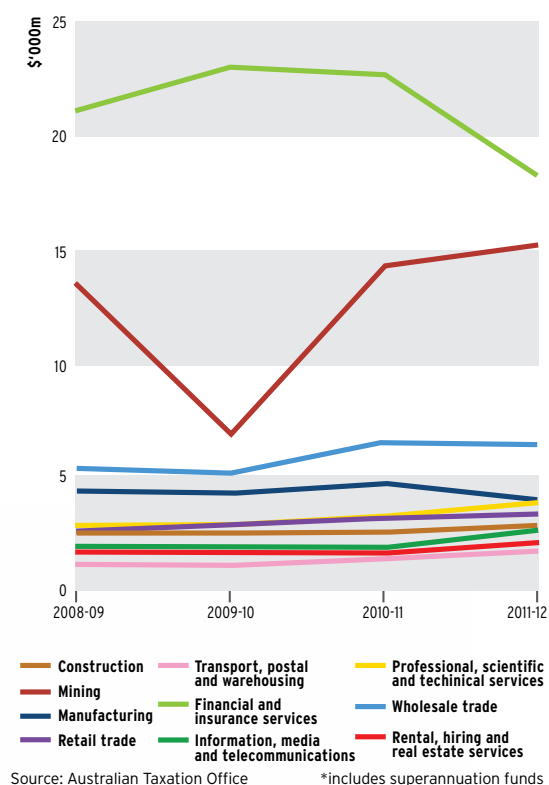
Source: ABS National Accounts

*Chain volume index 2011-12 = 100.00

Reinvesting in Australia

Financial and insurance services consistently represent the largest federal company tax receipts out of all the major industries. The sector pays around \$18 billion in tax each year. By way of comparison, this amount equals the forecast value of the sale of New South Wales' electricity networks, the proceeds of which is intended to fund the state's infrastructure needs over the next few decades. At a time when global attention is on the tax treatment of major international corporations, this represents a significant re-investment in Australia by the sector.

Figure 6. Top industry contributors to company income tax revenue, Federal*



High-skilled, high productivity sector

Given its substantial contribution to GDP and government revenue, it is important to remember that the financial and insurance services sector only represents about four per cent of Australia's working population. The sector employs just over 400,000, behind health care and social assistance (around 1.4 million), retail (1.2 million) and construction (over 1 million). Indeed, across the economy, only the mining sector has a stronger ratio between number of people employed and overall contribution to GDP, meaning that financial and insurance services are an extremely highly productive sector for the economy.

Employment in the sector has been growing steadily since 1999, and generally shows greater stability than other major employment industries in Australia as seen in **Figure 7**.

Fig. 7: Employment by selected industries, 1999-2014

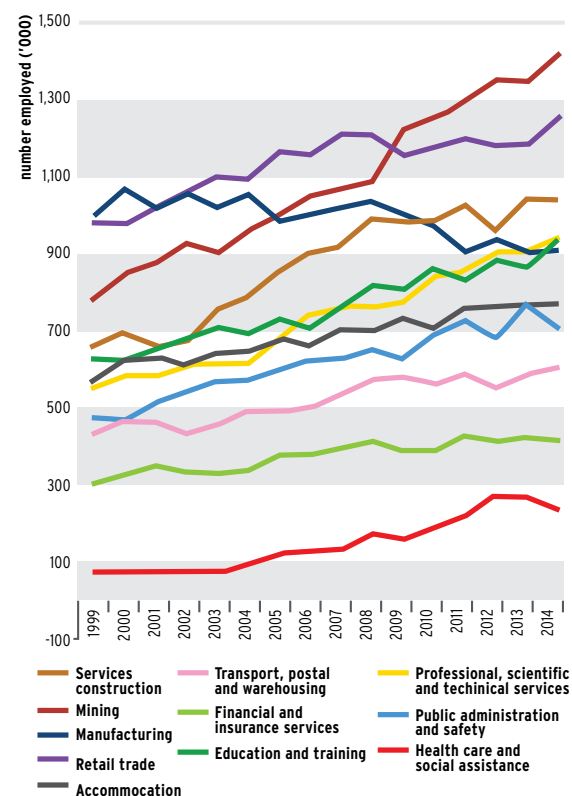
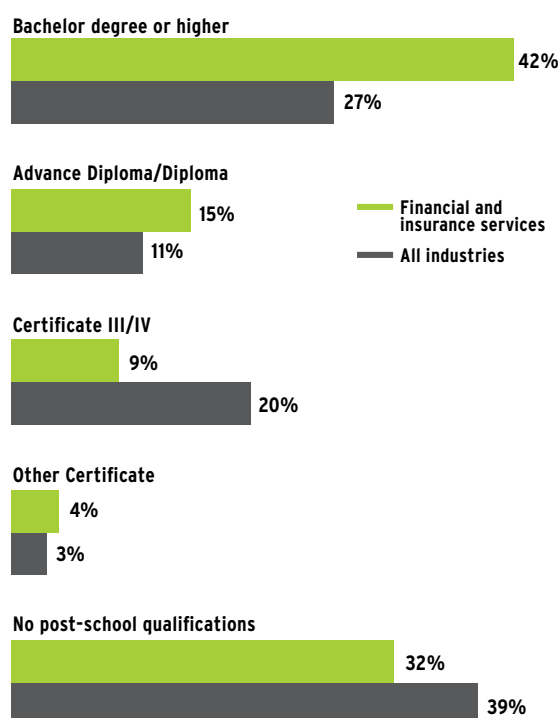


Fig. 8: Education profile of the financial and insurance services industry, 2014



Source: ABS National Accounts

TABLE 2: Employment of university graduates by industry, 2013

Rank	Industry	per cent
1	Professional, scientific and technical services	21.4
2	Health care and social assistance	19.5
3	Education and training	17.4
4	Public administration and safety	12.8
5	Financial and insurance services	5.6
6	Manufacturing	3.6
7	Information media and telecommunications	3.0
8	Retail trade	2.5
9	Mining	2.1
10	Other services	2.1
11	Arts and recreation services	1.9
12	Construction	1.4
13	Administrative and support services	1.4
14	Transport, postal and warehousing	1.2
15	Electricity, gas and water supply	1.1
16	Wholesale trade	0.9
17	Accommodation and food services	0.8
18	Rental, hiring and real estate services	0.7
19	Agriculture, forestry, and fishing	0.5

Source: Graduate Careers Australia

Though a smaller employer than many other industry sectors, the financial and insurance services workforce typically has a higher level of education than other sectors. Almost half of all employees in the sector hold a bachelor degree or higher, compared to just over a quarter across all industries.

This higher than average level of tertiary educated employees means the financial and insurance services industry is well-positioned to continue to drive economic growth in Australia as our economy under-goes the transition to high-skill, high value-add employment in order to remain globally competitive.

Employees in the sector also have a higher level of diploma-level qualifications than aggregate industry (see **Figure 8**), and it was a top five employer of Australian university graduates in 2013 (see **Table 2**).

The future prospects of the skilled financial and insurance services workforce are reinforced by its demographics; the workforce has a relatively younger age profile, with less than one third of workers aged 45 years or older compared to 38 per cent for all industries. Women are also well-represented, being the majority at 53 per cent.

Employees in the industry are relatively well-remunerated; the average employee salary is just over \$87,000 per annum. By comparison, the average annual salary of all employees in Australia is \$58,390.80.⁴

⁴ Calculated from ABS Average Weekly Earnings, Key Figures, Australia, May 2014

TABLE 3: Average banking and financial services sub-sector salaries

Sub-sector	Avg. Min	Avg. Max	Average
Average industry-wide			\$87,649
Audit	\$60,000	\$200,000	\$125,638
Risk Management	\$62,000	\$230,000	\$124,303
Treasury	\$55,000	\$300,000	\$117,764
Business & Corporate Banking	\$50,000	\$200,000	\$114,953
Compliance	\$51,376	\$220,000	\$113,481
Investment Banking	\$50,000	\$300,000	\$105,491
Actuaries	\$45,000	\$180,000	\$103,903
Business Analyst / Credit Analyst	\$50,000	\$170,000	\$102,524
Analyst	\$55,000	\$180,000	\$102,408
Corporate Advisory	\$45,000	\$200,000	\$97,844
Management	\$50,000	\$230,000	\$97,570
Other Financial Services	\$40,000	\$220,000	\$90,395
Sales	\$40,000	\$250,000	\$86,579
Credit Management	\$45,000	\$210,000	\$86,249
Financial Planning	\$45,000	\$180,000	\$85,154
Funds Management	\$45,000	\$250,000	\$83,002
Stock broking	\$45,000	\$200,000	\$80,218
Retail Banking	\$45,000	\$170,000	\$79,483
Mortgages	\$40,000	\$150,000	\$75,158
Superannuation	\$40,000	\$160,000	\$72,483
Settlements	\$40,000	\$110,000	\$63,169
Client Services	\$40,000	\$130,000	\$60,411
Collections	\$40,000	\$85,000	\$57,136
Data Entry	\$24,000	\$75,000	\$42,885

Source: MyCareer weekly salary survey

However, industries with higher average salaries than financial and insurance services include mining, construction, public administration and safety, and education and training.

On average, the lowest paid workers in the sector are employed in client services, collections and data entry.

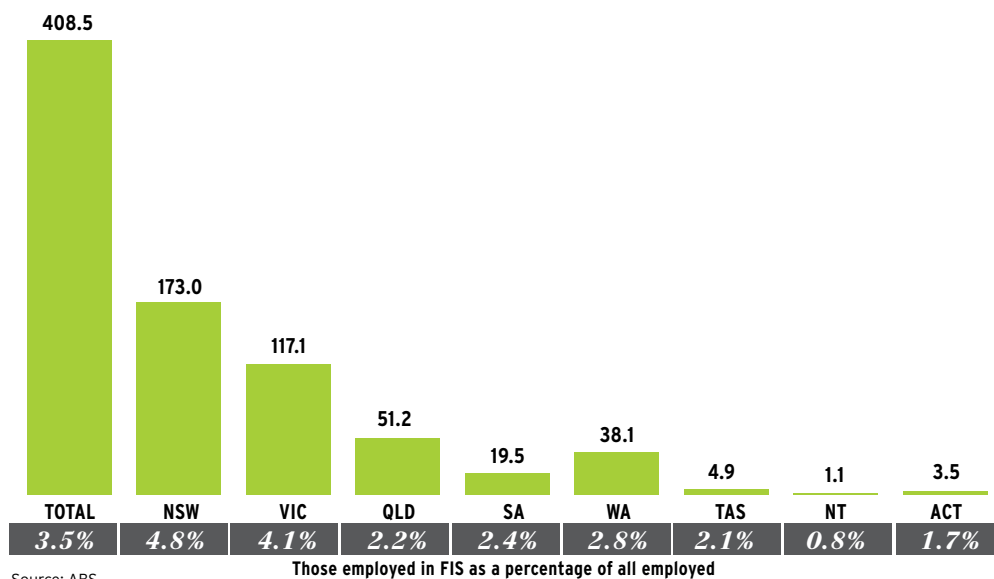
The highest are those in audit, risk management and treasury functions.

Strong state based industries

In accordance with the geographic location of the sector's economic output and larger populations, close to three-quarters of financial and insurance services employees are located in New South Wales and Victoria. In those states, the people employed in the sector represent four to five per cent of the total workforce (see **Figure 9**).

Though the sector's employment is currently concentrated in New South Wales and Victoria, the opportunity is there for

Fig. 9: Financial and insurance services employment by state, 2014



South Australia and Tasmania to reap the potential economic benefits by growing their financial and insurance services workforce. For example, despite having fewer financial and insurance services employees than Queensland

(the third largest employer of financial and insurance services industry workers in Australia) in absolute terms, a higher percentage of South Australia's workforce is employed in the sector. Similarly, Tasmania is only 0.1 per cent behind Queensland.

Export opportunities

The value of Australia's financial and insurance services exports remains low on the overall list of Australia's exports as well as the list of services exports, though it has posted rapid growth between 2012 and 2013, rising by 43 per cent from \$2.08bn to \$2.97bn. In 2013 it made up just 5.4 per cent of Australia's services exports (see **Table 4**). This is a sign that there is ample room for growth in export of financial and insurance

services, especially considering its important role in the Australian domestic economy. Combined with the overall strength of the sector, calls to take advantage emerging opportunities for building a financial services hub for the Asia Pacific region in Australia and developing financial services exports are gaining momentum.

Australia's largest export destination for financial services and insurance and pension services is New Zealand. This is predominantly due to a significant export of insurance and pension services. Other large export markets for this industry are UK, US, Netherlands and Hong Kong.

Rapidly-growing Asian economies in our region represent significant opportunities for medium- to long-term growth, such as Indonesia, India and China. These are in addition to the more obvious opportunities in established economies such as Japan and Korea.

TABLE 4: Financial and insurance services share of services exports (\$m), 2011-2013

	2011	2012	2013
Insurance and pension	411	457	505
Financial	1,289	1,627	2,468
Combined	1,700	2,084	2,973
Total exports of services	50,049	51,200	55,070
FAIS as per cent total services exports	3.40	4.07	5.40

Source: Department of Foreign Affairs and Trade, Trade in Services Report 2013

TABLE 5: Services exports top destinations of financial and insurance services (\$m), 2011-2013

	2011	2012	2013
1 NZ	299	359	477
2 UK	202	255	387
3 US	144	210	369
4 Netherlands	69	55	107
5 Hong Kong (SAR of China)	103	107	105
1 OECD	850	1021	1504
2 APEC	930	999	1384
3 EU	298	356	547
4 ASEAN	179	136	175
5 Central America & Caribbean	33	31	32
Globally	1700	2084	2973

Source: Department of Foreign Affairs and Trade, Trade in Services Report 2013

SUPERANNUATION *in Australia*

As of February 2014, the entire value of assets held in superannuation funds in Australia was more than \$1.56 trillion - or 105 per cent of GDP - making Australia the fourth-largest superannuation market in the world, behind the US, the UK and Japan. Put in perspective, countries with much larger populations, such as Canada, the Netherlands, Germany, Brazil and France are well behind Australia in their value of assets held in superannuation.⁵

SELF-MANAGED SUPER FUNDS

In the context of strong growth in the value of Australia's superannuation over the last decade, the self-managed superannuation fund (SMSF) sub-sector has been growing strongly. It is now the largest portion of Australia's pool of superannuation funds.

Since 2009, the total value of assets held in SMSFs grew by more than 70 per cent from \$316.5 billion to \$546.9 billion.⁶ Over the same period, the number of SMSFs grew by around 30 per cent, up from approximately 399,419 SMSFs at the end of the June 2009 quarter to almost 528,701 at the end of March 2014.

In June 2014 the value of SMSF assets had risen to \$557 billion, making up around one third of Australia's total superannuation pool of \$1.85 trillion.⁷ The value of assets held in SMSFs is therefore continuing to grow, both in absolute terms and as a proportion of the broader superannuation sector, as demonstrated in **Table 6**.

TABLE 6: Total value of superannuation assets held in Australia (\$bn)

	June 2013	June 2014
SMSF	495	557
Retail	422	*
Industry	323	*
Public sector	256	*
Other (incl corporate)	100 approx	*
Total	1608	1853
	(\$1.6trn)	(\$1.85trn)

Source: Australian Prudential Regulation Authority; Australian Taxation Office
*data not yet available

Investment mix

The overwhelming majority of assets held in SMSFs are cash, and listed and unlisted shares, as seen in **Figure 10**. Typically, the lower the balance of the SMSF, the higher shares, cash and term deposits are in the investment mix; this proportion is smaller in higher balance SMSFs, giving way to more investment in trusts and property.⁸ That said, however, residential property and more esoteric investments such as valuable artworks rarely form more than five per cent of the investment mix regardless of the size of the SMSF.

Only a small proportion of SMSFs appear to be invested in property. While it can be assumed that most of those who are will be leveraged, the results of the survey confirms this.

There are very little foreign investments of any kind held in SMSFs across the board, which is noticeably different to the larger Australian Prudential Regulation Authority (APRA) regulated industry and retail funds.

⁵ Austrade 2014

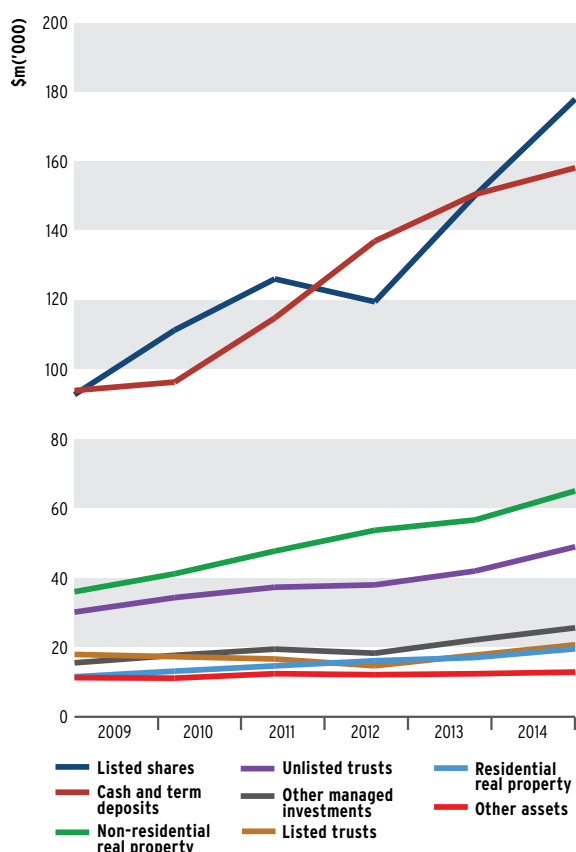
⁶ Australian Taxation Office 2014 <https://www.ato.gov.au/Super/Self-managed-super-funds/In-detail/Statistics/Quarterly-reports/Self-managed-super-fund-statistical-report---March-2014/?page=2#Tables>

⁷ APRA 2014

⁸ Arnold et al. 2014



Figure 10: SMSF asset allocation, 2009-2014



Source: ABS National Accounts

Advisory

SMSF service delivery is generally conducted by firms that also provide other financial advisory services; around three quarters of these are accounting and financial planning firms.⁹ Less than ten per cent of firms providing SMSF advice and administration services were originally started with that express purpose.¹⁰

The industry is typified by many small firms servicing 100 or less SMSFs that generally do not take advantage of technological innovations and automation. Building

economies of scale in the financial advisory sector would likely lead to higher profit margins, making the industry a prime target for consolidation, which could in turn lead to increased growth in the financial services sector, as well as the value of assets held and the number of SMSFs.¹¹

Administration and fees

The cost-effectiveness of SMSFs can be high if the trustees themselves take on the bulk of administrative work, meaning that an SMSF has the potential for its trustees to be a lower cost option than retail or industry funds.

Generally, fees as a percentage of total assets decrease as the size of the SMSF increases.¹²

⁹ SPAA and Macquarie Bank 2014

¹⁰ Ibid

¹¹ Ibid

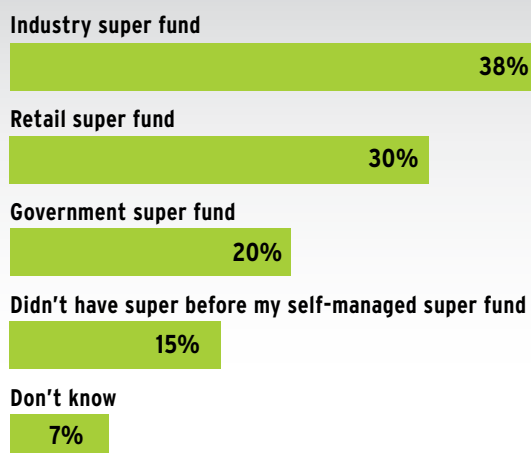
¹² Arnold et al. 2014

Self-managed SUPER FUNDS national survey

THE DECISION TO SET UP AN SMSF

The vast majority of respondents already had superannuation prior to moving to an SMSF, with only 15% reporting they did not have super beforehand. Those who did switch from another type of super have come from industry super funds (38%), retail super funds (30%) and government super funds (20%).

Q. Before establishing your self-managed super fund what type of superannuation fund did you have? (n=600)



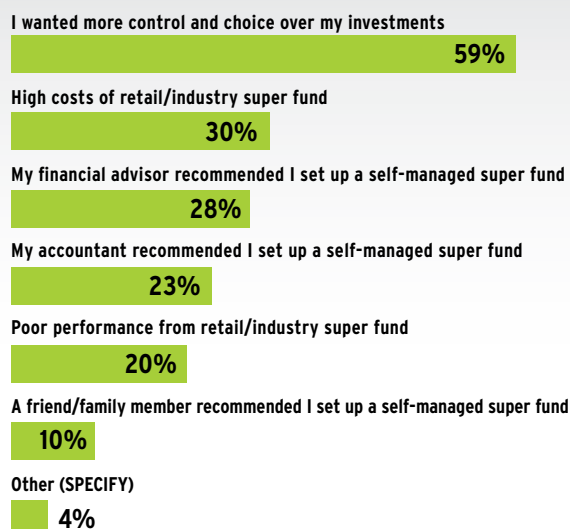
Reasons for setting up SMSF

The increase in popularity of SMSFs appears to be driven more by a desire in the market to have more control and choice over superannuation investments than the high cost or poor performance of retail and industry funds.

Well over half of respondents (59%) reported they chose to set up their SMSF because they wanted more control and choice over their investments.

Just under one third said they chose to set up an SMSF because of the high costs of retail and industry super funds (30%) or because their financial adviser recommended it (28%).

Q. Which of the following best describes why you chose to set up your self-managed super fund? (n=600) MULTIPLE RESPONSE

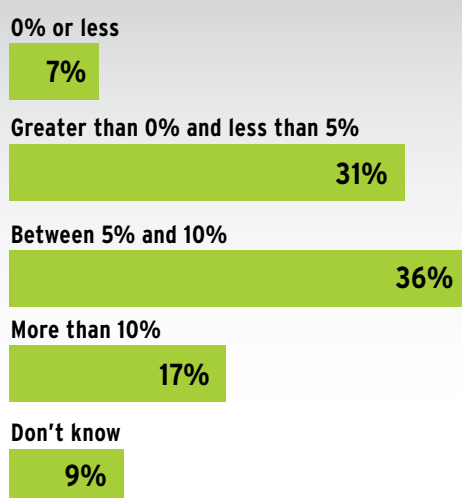


Annual growth

When asked how their SMSF performed over the last 12 months, less than a fifth reported that they beat the annual industry-wide rate of return for superannuation entities with at least \$50 million in assets (11.6% for year end 2014 compared to 17% reporting their SMSF grew by more than 10%).

This suggests that while the increase in control and general performance may be the key drivers for setting up an SMSF, many SMSF holders are post-rationalising the performance of their self-controlled investments, which presents a potential opportunity to provide advice and other structures to assist in aligning the performance of SMSFs with the rest of the industry.

Q. How much did your superannuation fund grow by in the last 12 months? (n=600)

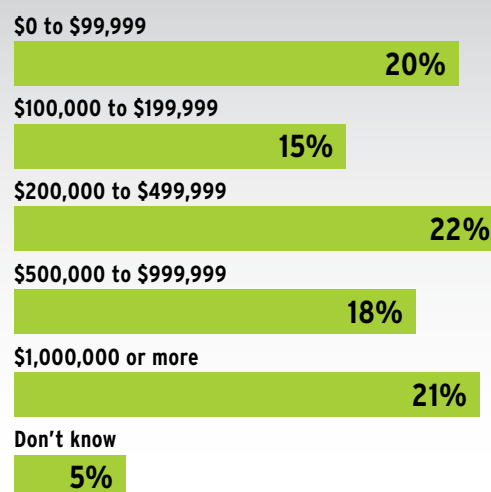


SMSF FUND PROFILE AND INVESTMENT DECISIONS

Size of Fund

Amongst respondents, the average size of their current self-managed super fund is \$695,000, with 21% having SMSFs worth over \$1m. Notably, there is an even spread of fund size up to \$1m, suggesting that their popularity is not just amongst people with a particular size of superannuation fund.

Q. What is approximate size of your current self-managed super fund? (n=600)



Fund profile

The fund profile of SMSF holders is relatively limited to a few particular types of investments. On average, respondents reported that just over one third (35%) of their SMSF is in deposits/cash, around one quarter (23%) is in domestic equities and 15% in a managed fund.

Q. Approximately what percentage of your self-managed super fund investment is in each of the following? (n=600)

	Avg %
Deposits/cash	35%
Domestic equities	23%
Managed fund	15%
Direct residential property	7%
Domestic bonds	5%
Overseas equities	4%
Listed property	4%
Direct commercial property	4%
Overseas bonds	2%

Managed fund

Compared to the SMSF profile, the reported investment profile of their managed funds is far more diverse, with higher proportions invested in various assets.

Over half of respondents report that their managed fund invests in deposits/cash (51%) and domestic equities (51%). Around one third report their managed fund invests in overseas equities (36%), domestic bonds (31%) and listed property (28%).

Amongst respondents who report investing in a managed fund, the most common funds mentioned include BT (7%), Colonial First State (6%), AMP (5%), MLC (4%) and Macquarie (4%).

Q. Which of the following types of assets does your managed fund invest in? MULTIPLE RESPONSE (n=239)

	Per cent
Deposits/cash	51%
Domestic equities	51%
Overseas equities	36%
Domestic bonds	31%
Listed property	28%
Overseas bonds	24%
Direct commercial property	16%
Direct residential property	11%
Don't know	27%

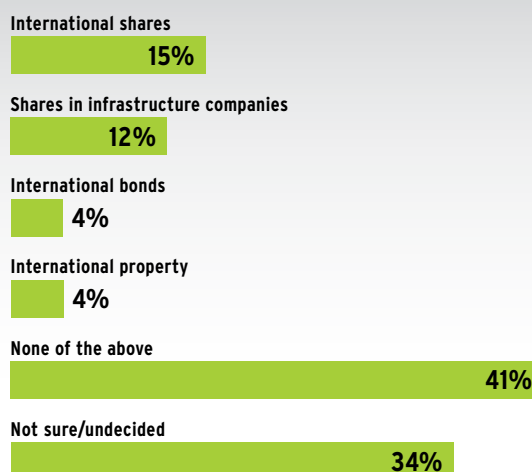
Diversification

Given the lack of diversity in assets between their SMSFs and the managed funds they invest in, it appears that SMSF holders are interested in diversifying their direct investments in other assets such as international shares. This suggests an opportunity to advise and provide an investment vehicle to reduce the barriers to

diversification of investment into these types of assets.

More than one in ten respondents (12%) report they are currently considering diversifying their SMSF portfolio into shares in infrastructure companies. With \$546.9b currently invested in SMSFs in Australia, this means there is a potential pool of \$54.69b being considered for investment in equity shares in investment companies.

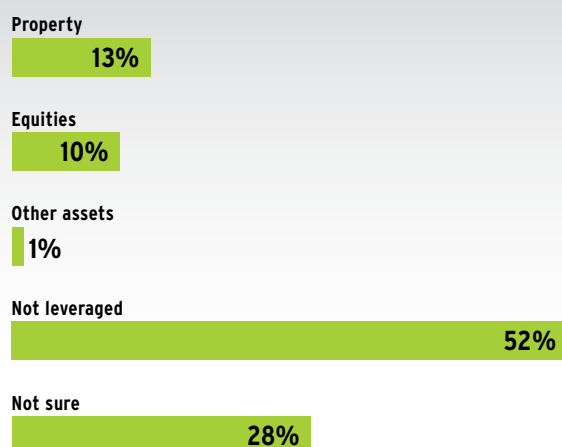
Q. Are you currently considering diversifying your self-managed super fund portfolio into any of the following? MULTIPLE RESPONSE (n=600)



Leverage

Around one in ten respondents report they are leveraged for property (13%) or equities (10%) through their SMSF.

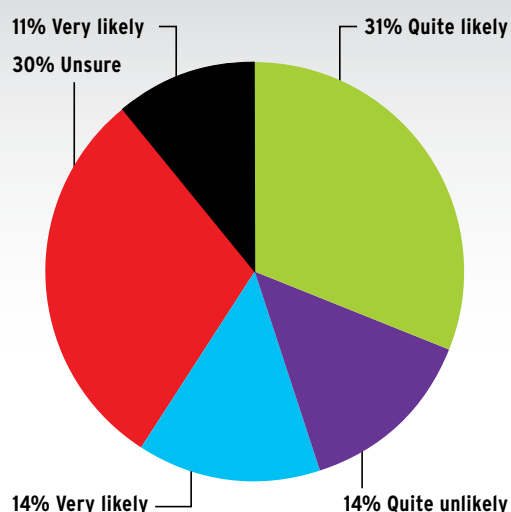
Q. Are you leveraged for any of the following through your self-managed super fund?
MULTIPLE RESPONSE. (n=600)



Interest in annuity and allocated pension

There appears to be sizeable demand for annuity and allocated pension products amongst SMSF holders.

Q. IF NOT RETIRED. How likely would you be to buy a product that provides an income stream (e.g. annuity or allocated pension) from your self-managed super fund? (n=404)



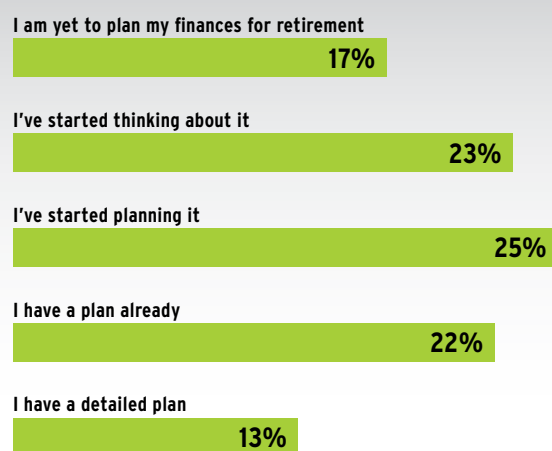
Around two in five respondents (43%) report they are likely to buy a product that provides an income stream from their SMSF, while almost one third (30%) are unsure.

Financial planning for retirement

While many SMSF holders report they have made plans for their retirement, most report they are yet to or are still in the process of planning for their retirement. This suggests that SMSF holders are not necessarily more organised for or focussed on their retirement.

Just over one third of respondents (35%) have planned their finances for retirement (22% have a plan, 13% have a detailed plan), while almost one in five (17%) are yet to plan their finances for retirement.

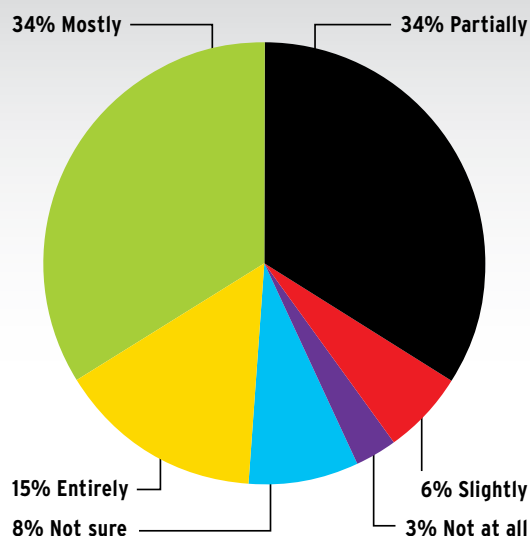
Q. IF NOT RETIRED. To what extent have you planned your finances for retirement? (n=404)



SMSF income dependence

Only 15% of respondents report their disposable income is currently or will in retirement be dependent on their SMSF, while 68% report that it will mostly be (34%) or currently are (34%).

Q. To what extent is/will your disposable income in retirement be dependent on your self-managed super fund? (n=600)

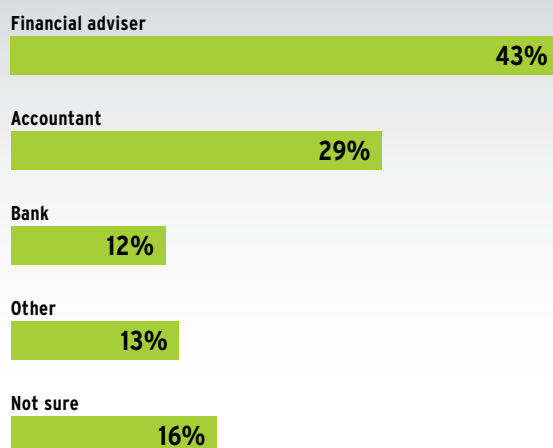


Financial advice

More than two in five (43%) of respondents report they have a formal arrangement with a financial adviser, while fewer than one third (29%) have a formal arrangement with an accountant for financial advice.

More than one in ten (16%) of respondents report they are not sure if they have a formal arrangement to receive financial advice.

Q. Do you have a formal arrangement to receive financial advice from any of the following? MULTIPLE RESPONSE (n=600)

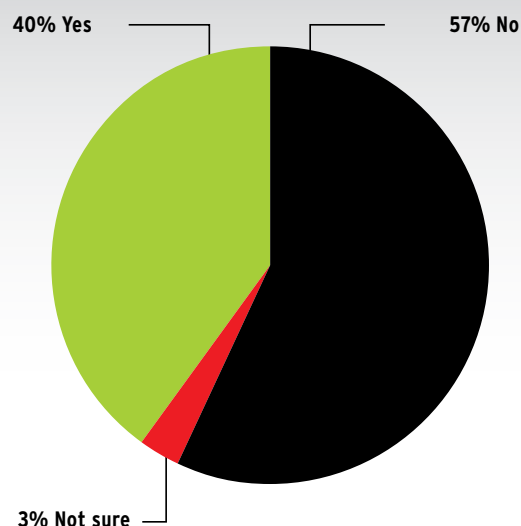


Life insurance

Q. What is the approximate value of your current life insurance portfolio? (n=600)

More than two thirds of respondents (68%) reported that they do not currently have any life insurance. Amongst those who did, on average their life insurance policy was worth \$837,074.

Q. IF HAVE LIFE INSURANCE Is your current life insurance policy through your self-managed super fund? (n=190)



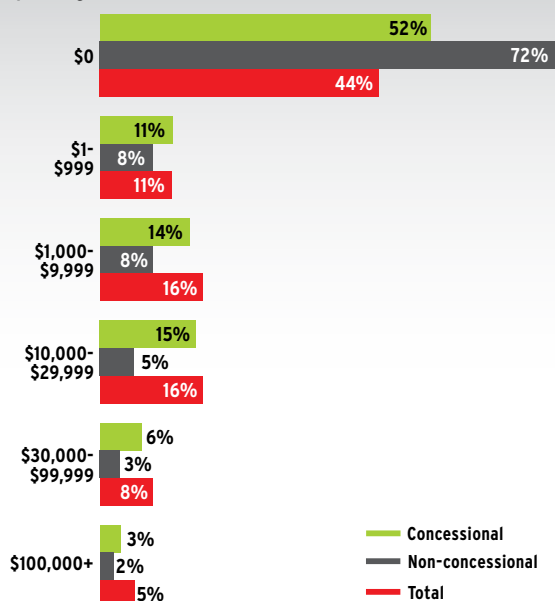
Of those respondents who have life insurance, two in five (40%) have it through their SMSF suggesting that it is quite common to have life insurance through an SMSF.

ENGAGEMENT WITH SMSF

Contribution

Given that only 31% of the sample reported they are retired, this finding suggests that SMSF holders have a high number of small business owners and contractors who chose not to contribute to their superannuation last year

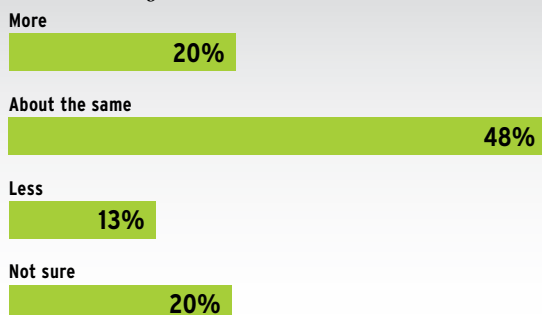
Q. Approximately how much did you contribute into your self-managed super fund in the last financial year (ending 30 June 2014)? (n=600 split by concessional and non-concessional)



Planned contribution

Despite this, almost half of respondents (48%) reported they are likely to contribute about

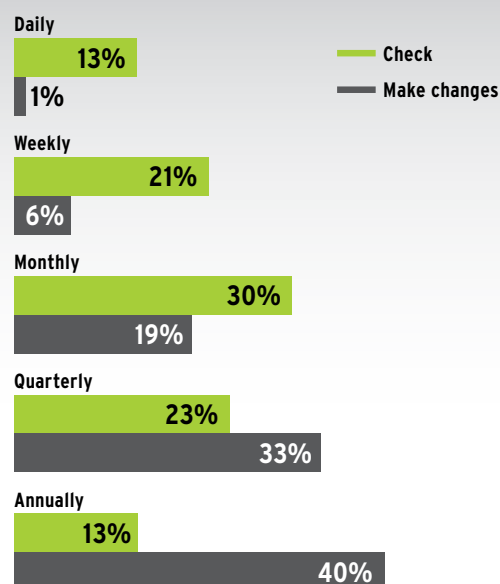
Q. Are you likely to contribute more or less into your self-managed super fund during this financial year (ending 30 June 2015) or will it be about the same as last year? (n=600)



the same into their SMSF this financial year as they did last year. One in five (20%) report they will contribute more.

Checking and making changes

Q. How often do you check or make changes to your self-managed super fund portfolio? (n=600)



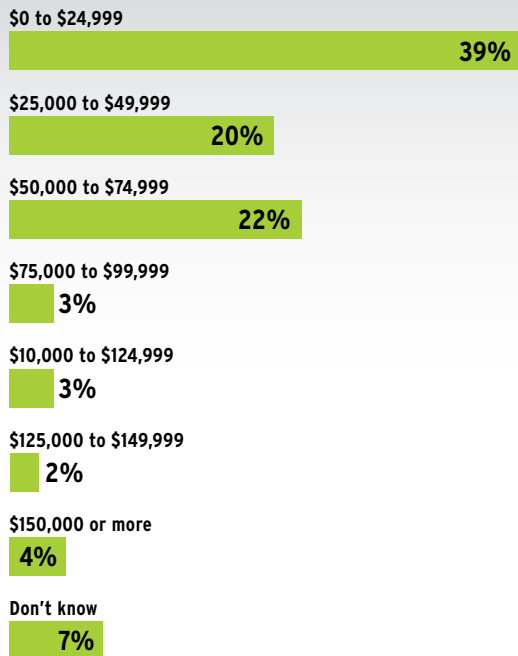
Almost two thirds of respondents (64%) reported they check their SMSF portfolio at least monthly (30% monthly, 21% weekly and 13% daily). Only around one quarter (26%) report they make changes to their SMSF at least monthly (19% monthly, 6% weekly and 1% daily). This suggests that engagement with SMSF portfolios are high, while they are viewed as a long term investment and tend not to change the portfolio often.

Annual draw down

Amongst those respondents who are retired, 81% drew down less than \$75,000 in the last financial year, with 39% drawing down less than \$25,000. This suggests that almost all are living off less than \$75,000 a year, or

they have alternative income streams from other investments.

Q. IF RETIRED, how much did you draw down on your superannuation in the last financial year (ending 30 June 2014)? (n=196)



APPENDIX I: *methodology*

QUANTITATIVE RESEARCH

An online and telephone survey amongst six hundred (600) SMSF holders nationwide was conducted between October 2 to 14, 2014. The aim of the survey was to quantify the attitudes and behaviours of the SMSF market.

SAMPLING APPROACH

- Target audience: A randomly nationally representative sample of SMSF holders across Australia;
- Respondents were sourced from leading quality-assured online and telephone panel provider, AFS;
- Quotas set in line with ABS data from the March 2014 SMSF Statistical Report using location, age and gender profiles;
- A sample size of n=600 (n=500 online and n=100 phone);
- Margin of error : +/- 4.0% at the 95% confidence level for a 50% result (i.e. if we obtain a result of 50% from a particular question in the survey, this figure could be as low as 46% or as high as 54% at the 95% confidence level);

Appendix II contains a breakdown of the sample by key demographics.

QUESTIONNAIRE

The questionnaire was designed to understand the following about SMSF holders:

- Demographic profile;
- Fund profile;
- Reasons behind their decision to start an SMSF;
- Contribution and draw down activity;
- Future planning.

See Appendix III for full copy of the questionnaire used.

WEIGHTING AND ANALYSIS

The final sample was weighted back to the original ABS SMSF holder profile by location, age and gender to ensure it was representative. The survey data were analysed using Q software. The relationships between questions were drawn using basic tables and were tested using statistical significance testing at the $P < 0.05$ (5% significance) level for all analyses.

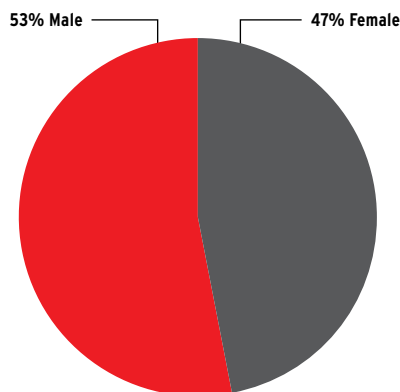
APPENDIX II:

quantitative research SMSF

SURVEY SAMPLE PROFILE

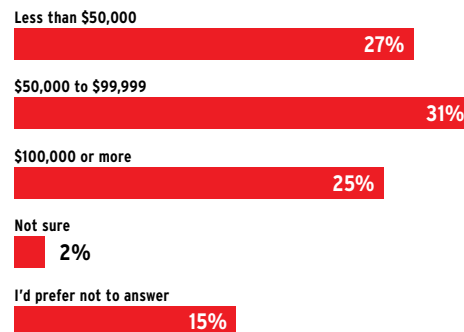
Gender

Q. What is your gender? (n=600)



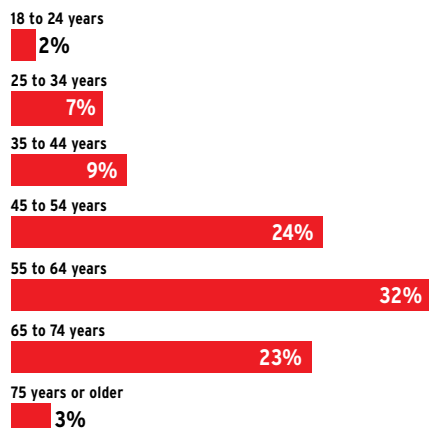
Personal annual income

Please indicate your total personal annual income from all sources before tax? (n=600)



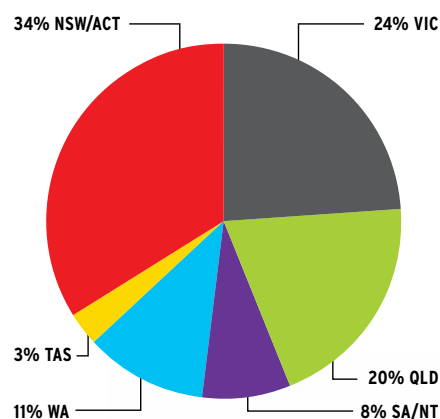
Age

Q. Which age group do you fall into? (n=600)



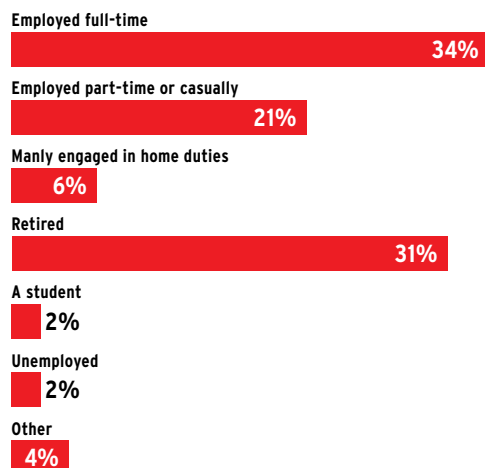
State of residence

Q. Which state/territory do you live in? (n=600)



Employment

Q. Are you currently...? (n=600)



APPENDIX III:

quantitative questionnaire for

NATIONAL SURVEY ON SMSF

Intro

Hello, my name isI am calling from GA Research, a social and market research company. We are conducting an important study on superannuation on behalf of the Financial Services Council. It will take about 10 minutes. Please note that we are not trying to sell you anything and the information and opinions you provide will be used only for research purposes. All your responses will be anonymous and confidential - according to the Australian Privacy Principles set out by the Australian Market & Social Research Society and the Privacy legislation.

Screening

Which of the following superannuation funds do you have?

- Industry super fund [TERMINATE]
- Retail super fund [TERMINATE]
- Government super fund [TERMINATE]
- Self-managed super fund [CONTINUE]
- Don't have super [TERMINATE]
- Don't know [TERMINATE]

Including yourself, how many members or trustees are in your self-managed super fund?

ENTER NUMBER

Demographics

To ensure we speak to a representative cross section of people please answer the following questions about yourself.

What is your gender? SINGLE RESPONSE

- Male
- Female

Which age group do you fall into?

SINGLE RESPONSE

- 18 to 24 years
- 25 to 34 years
- 35 to 44 years
- 45 to 54 years
- 55 to 64 years
- 65 to 74 years
- 75 years or older
- I'd prefer not to answer

Are you currently...? SINGLE RESPONSE

- Employed full-time
- Employed part-time or casually
- Mainly engaged in home duties
- Retired
- A student
- Unemployed
- Other (please specify)

Please indicate your total personal annual income from all sources before tax? SINGLE RESPONSE

- Less than \$20,000
- Between \$20,000 and \$34,999
- Between \$35,000 and \$49,999
- Between \$50,000 and \$59,999
- Between \$60,000 and \$69,999
- Between \$70,000 and \$79,999
- Between \$80,000 and \$99,999
- Between \$100,000 and \$119,999
- Between \$120,000 and \$149,999
- Between \$150,000 and \$199,999
- \$200,000 or more
- Not sure
- I'd prefer not to answer

Which state/territory do you live in?

SINGLE RESPONSE

NSW
Victoria
Queensland
South Australia
Western Australia
Tasmania
Australian Capital Territory
Northern Territory

Which best describes where you live?

SINGLE RESPONSE

A metropolitan area
A regional or rural area

Details of SMSF

What is approximate size of your current self-managed super fund?

\$0 to \$99,999
\$100,000 to \$199,999
\$200,000 to \$499,999
\$500,000 to \$999,999
\$1,000,000 or more
Don't know

Approximately how much did you contribute into your self-managed super fund in the last financial year (ending 30 June 2014)

A. Concessional	B. Non-concessional	TOTAL (A+B)

IF RETIRED [Q5=d], how much did you draw down on your superannuation in the last financial year (ending 30 June 2014)?

\$0 to \$24,999
\$25,000 to \$49,999
\$50,000 to \$74,999
\$75,000 to \$99,999
\$100,000 to \$124,999
\$125,000 to \$149,999
\$150,000 or more
Don't know

How much did your superannuation fund grow by in the last 12 months?

0% or less
Greater than 0% and less than 5%
Between 5% and 10%
More than 10%
Don't know

Are you likely to contribute more or less into your self-managed super fund during this financial year (ending 30 June 2015) or will it be about the same as last year? **SINGLE RESPONSE**

Likely to contribute more this year
Likely to contribute about the same as last year
Likely to contribute less this year
Not sure/undecided

Approximately what percentage of your self-managed super fund investment is in each of the following [PLEASE ENTER BEST ESTIMATE IF UNSURE]

Deposits/cash	
Domestic bonds	
Overseas bonds	
Domestic equities	
Overseas equities	
Managed fund	
Listed property	
Direct commercial property	
Direct residential property	
TOTAL (ADDS TO 100%)	

[IF MANAGED FUND IN Q14]. Who is your managed fund with? **OPEN ENDED [ENTER NAME]**



[IF MANAGED FUND IN Q14]. Which of the following types of assets does your managed fund invest in? MULTIPLE RESPONSE

- Deposits/cash
- Domestic bonds
- Overseas bonds
- Domestic equities
- Overseas equities
- Listed property
- Direct commercial property
- Direct residential property
- Don't know

Attitudes to SMSF

Which of the following best describes why you chose to set up your self-managed super fund? MULTIPLE RESPONSE

- Poor performance from retail/industry super fund
- High costs of retail/industry super fund
- I wanted more control and choice over my investments
- My financial advisor recommended I set up a self-managed super fund
- My accountant recommended I set up a self-managed super fund
- A friend/family member recommended I set up a self-managed super fund
- Other (SPECIFY)

Before establishing your self-managed super fund what type of superannuation fund did you have?

- Industry super fund
- Retail super fund
- Government super fund
- Didn't have super before my self-managed super fund
- Don't know

SMSF activity

How often do you check or make changes to your self-managed super fund portfolio? SINGLE RESPONSE FOR EACH COLUMN

	Check	Make changes
Daily		
Weekly		
Monthly		
Quarterly		
Annually		

Are you currently considering diversifying your self-managed super fund portfolio into any of the following? MULTIPLE RESPONSE

- International shares
- International bonds
- International property
- Shares in infrastructure companies
- None of the above
- Not sure/undecided

Are you leveraged for any of the following through your self-managed super fund? MULTIPLE RESPONSE

- Property
- Equities
- Other assets (SPECIFY)
- Not leveraged
- Not sure

Do you have a formal arrangement to receive financial advice from any of the following? MULTIPLE RESPONSE

- Financial adviser
- Bank
- Accountant
- Other (SPECIFY)
- Not sure

What is the approximate value of your current life insurance policy? ENTER NUMBER. [ENTER 0 IF NO LIFE INSURANCE]

IF HAVE LIFE INSURANCE Is your current life insurance policy through your self-managed super fund? SINGLE RESPONSE

- Yes
- No
- Not sure

Future plans

ASK IF NOT RETIRED (Q5#d). To what extent have you planned your finances for retirement? SINGLE RESPONSE

- I am yet to plan my finances for retirement
- I've started thinking about it
- I've started planning it
- I have a plan already
- I have a detailed plan

ASK IF NOT RETIRED (Q5#d). How likely would you be to buy a product that provides an income stream (e.g. annuity or allocated pension) from your self-managed super fund? SINGLE RESPONSE

- Very likely
- Quite likely
- Quite unlikely
- Very unlikely
- Not sure

ASK ALL. To what extent is/will your disposable income in retirement be dependent on your self-managed super fund? SINGLE RESPONSE

- Entirely
- Mostly
- Partially
- Slightly
- Not at all
- Not sure

Thank you for your time.



APPENDIX IV:

about the report

STATE OF THE INDUSTRY

The *State of the Industry* and Superannuation sections of the report were researched, analysed and prepared by consultants at Kreab Gavin Anderson. Data was obtained from various publically available sources, including ABS and other government and industry reports.

Kreab Gavin Anderson is one of Australia's leading strategic communications, issues management and public affairs firms. With more than 30 consultants across Sydney, Melbourne, Canberra, Perth and Brisbane, our team comprises consultants drawn from diverse backgrounds including politics, the bureaucracy, media, business, law, finance and industry. Kreab Gavin Anderson Australia is part of an integrated global network with offices in the world's major economic and political centres.

Self Managed Super Funds National Survey

The Self Managed Super Funds National Survey was conducted by Kreab Gavin Anderson's market and social research division, GA Research.

GA Research is a team of specialists in strategy, communications and stakeholder engagement research with particular expertise in projects related to program evaluation, community

and stakeholder perceptions, communications development, testing and evaluation, corporate reputation and positioning and issues management.

The GA Research partnership with Kreab Gavin Anderson allows the integration of proven research capability with an experienced strategic communications approach and the combined skills and experience to provide evidence-based information derived from robust research methodologies along with a strategic and innovative communications perspective.

GA Research is ISO 20252 accredited, a member of the Association of Market and Social Research Organisations (AMSRO) and individual researchers are members of the Australian Market and Social Research Society (AMSRS). GA Research adheres to the AMSRS Code of Professional Conduct and is bound by the Market and Social Research Privacy Principles.

Further details about the survey, including methodology, sample profile and the survey instrument are included in the Appendices.



FINANCIAL SERVICES COUNCIL

The Financial Services Council represents Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks, licensed trustee companies and public trustees.

The Council has over 120 members who are responsible for investing more than \$2.3 trillion on behalf of 11 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the third largest pool of managed funds in the world. The Financial Services Council promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.

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UBS GLOBAL ASSET MANAGEMENT (AUSTRALIA) LIMITED

UBS Global Asset Management is a large-scale asset manager with diversified businesses across investment capabilities, regions and distribution channels. It offers investment capabilities and styles across all major traditional and alternative asset classes including equities, fixed income, currencies, hedge funds, real estate, infrastructure and private equity that can also be combined into multi-asset strategies.

Invested assets totalled AUD 776 billion at 30 September 2014. The firm is a leading fund house in Europe, the largest mutual fund manager in Switzerland and one of the largest fund of hedge funds and real estate investment managers in the world.

We have around 3,800 employees located in 24 countries. Our main offices are in Chicago, Frankfurt, Hartford, Hong Kong, London, New York, Paris, Singapore, Sydney, Tokyo and Zurich.

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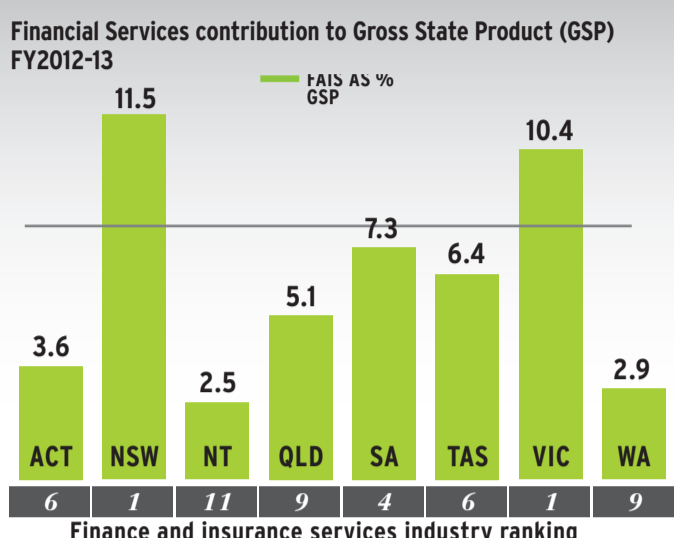


STATE OF THE INDUSTRY 2014 Infographic

Financial Services

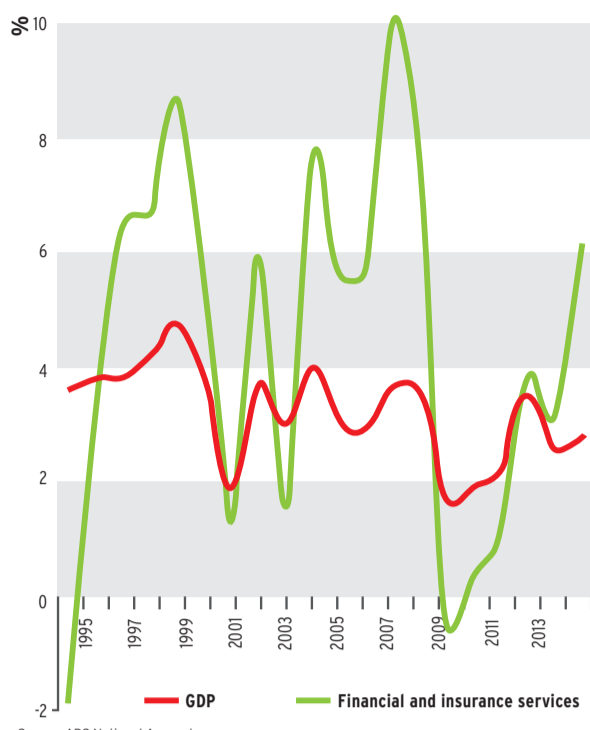
Largest sector of the Australian economy

NSW is the fastest growing state:
Financial Services = 11.15% of GSP



Contributes over \$130 billion to GDP each year

Financial Services growth compared to GDP - 1995-2014



Pays the most corporate tax
- \$20 billion per annum

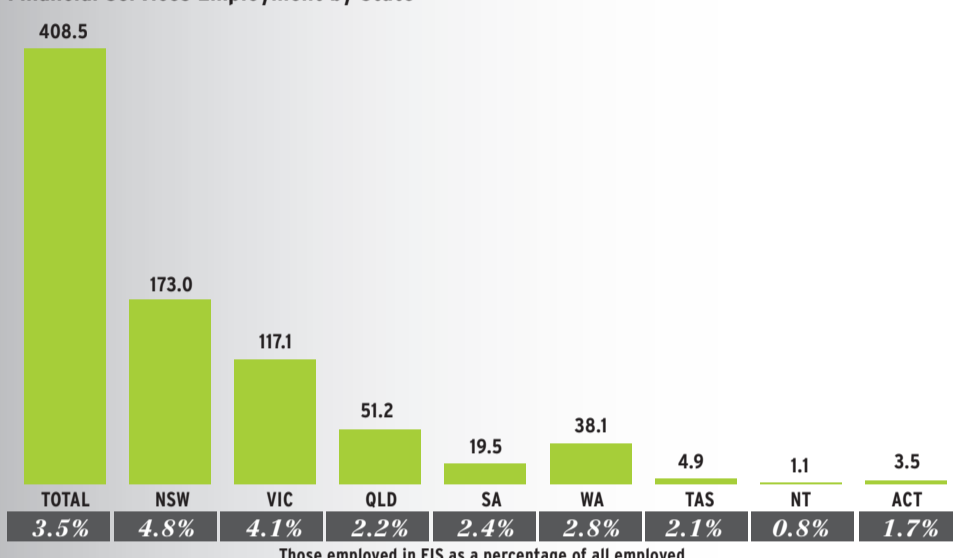
Jobs are highly skilled,
and highly remunerated

Includes \$1.85 trillion in
superannuation = 116% of GDP

Exports grew 43% in 2012-13
- \$2 billion to \$2.9 billion

Employs more than 400,000

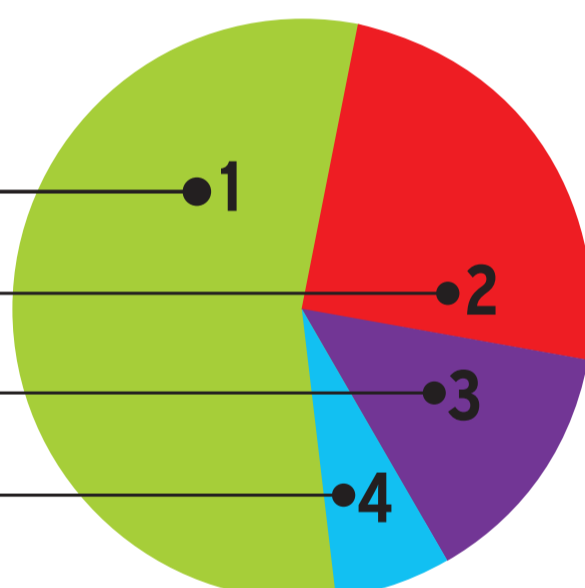
Financial Services Employment by State



AUSTRALIA POPULATION 23 MILLION • WORLD'S 4th LARGEST
SUPERANNUATION SYSTEM • LARGEST INDUSTRY - FINANCIAL SERVICES

Largest Superannuation Schemes

1. United States - population 316 million
2. Japan - population 127 million
3. United Kingdom - population 64 million
4. Australia - population 23 million



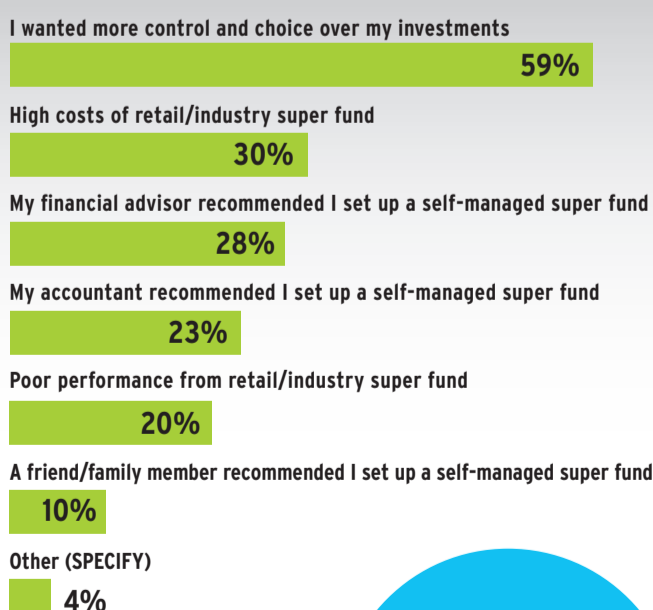
SMSFs

\$550 billion
= 1/3 of Australia's
superannuation
pool

\$320 billion
in 2009;
\$550 billion
today
= 30% growth

59% have an SMSF
for control and choice

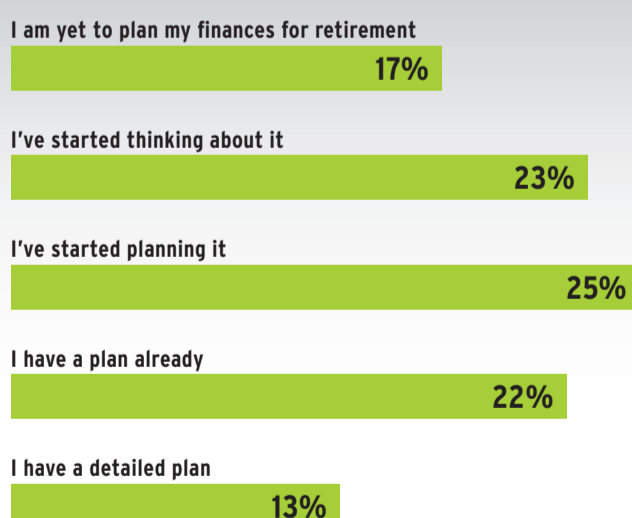
WHY AUSTRALIANS HAVE SMSFs



A typical
SMSF has 35%
invested in
deposits/cash

60% of SMSF owners have plans or
have started planning for retirement

PLANNING FOR RETIREMENT



15% may add international shares
to their investment portfolios

HOW SMSF OWNERS PLAN TO DIVERSIFY PORTFOLIOS

