Financially speaking

SPRING 2023 EDITION

Greater super contribution opportunities from 1 July 2023

If you are looking to increase your super, and are under age 75, then a good way is through making non-concessional contributions. Recent changes to legislation have provided greater opportunities for additional non-concessional super contributions that may help you in building your super balance.

When and why make non-concessional contributions?

If you sell an asset of considerable value or receive a significant financial windfall, it could give you the opportunity to deposit that money into your super and better help you fund your retirement and future. Making non-concessional contributions not only increases your investment wealth in a tax-advantaged environment, it also is a great estate planning strategy, as no tax is payable on this amount when you die regardless of whom it is paid to.

What are non-concessional contributions and bring forward non-concessional contributions?

Non-concessional contributions are after tax contributions made to super with no 15% contribution tax on the way in. The standard non-concessional contribution cap in 2023/24 is $110,000 per annum.

In addition, the bring-forward non-concessional contribution rule allows you to make up to three years' worth of non-concessional contributions in one financial year ($110,000 x 3). There are certain eligibility criteria that you need to meet in order to make a non-concessional contribution such as total super balance restrictions, but it does mean you might be able to boost your super balance by up to $330,000 in a tax effective environment. If you are approaching 75 years of age, it is important to contact your Financial Adviser urgently, as strict age limits apply.

What is total super balance (TSB)?

Generally, your TSB is the sum of all amounts you have in the super system at 30 June each year. At a high level, it includes:

- your accumulation account balances
- your super pension accounts.

Exceptions and modifications may apply. Calculating TSB can be complex, especially for people with defined benefit components, so it's important to seek advice.

What has changed from 1 July 2023?

Since 1 July 2023, the general transfer balance cap has increased to $1.9m (increase from $1.7m).

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The total super balance threshold for making non-concessional contributions has increased to $1.9m. This increase in the total super balance threshold means there are more opportunities to make non concessional contributions under the bring forward rule from this financial year onward.

This is because in the year the bring forward contribution is triggered, the increased total super balance (TSB) thresholds allow greater opportunities to make larger non-concessional contributions as outlined in the following table:

Total super balance at 30 June 2023	Non-concessional contributions available in 2023/24
Less than $1.68m (previously $1.48m)	Up to $330,000
At least $1.68m but less than $1.79m (previously $1.59m)	Up to $220,000
At least $1.79m but less than $1.9m (previously $1.7m)	Up to $110,000
$1.9m or greater (previously $1.7m)	Nil

These rules are complicated, so it's important you speak to your Financial Adviser before you turn 75, as strict age limits apply.

Keys to long-term wealth creation

Understanding the relationship between valuation, volatility, and wealth creation risk.

A great way to profit from volatility and manage investment risk is through understanding fundamental intrinsic valuation. That is, buying undervalued companies when they offer a material margin of safety selling down exposure to overvalued companies.

The link between valuation, volatility and wealth creation risk is underappreciated. Using intrinsic valuation as a tool to profit from share market volatility and safeguard against investment risk is central to long-term wealth creation.

Start with valuation. The goal is to buy quality companies when they trade well below their long-term intrinsic value. Often, that requires buying out-of-favour assets.

Market volatility fuels valuation anomalies. Investor sentiment and market noise can cause the share prices to move away from their long-term intrinsic value. This often distracts investors who then either overpay for assets in upswings or sell too cheaply in downdrafts.

Some investors fear this volatility because they confuse it with risk to long term wealth creation. Whereas volatility simply denotes the change in asset returns from one period to the next and is largely a measure of swings in short-term market sentiment.

The real risk for most investors is that of not generating sufficient wealth from their investments to fund a multi-decade retirement and meet rising living costs in an inflationary environment. Paradoxically, the biggest risk retirees can incur is to not take enough risk, as the income they need is not met by the returns on their investments.

While long-term fundamental risk needs to be carefully managed to achieve desired wealth outcomes, short-term volatility should be embraced as a facilitator of buying undervalued and selling overvalued assets.

You may benefit from market volatility by using active fund managers who understand long term intrinsic equity valuations.

Reduce investment risk by not overpaying for assets. Buying undervalued assets sets portfolios up for higher long-term returns and helps preserve capital.

Investing in volatile markets requires conviction. Buying out-of-favour assets when markets are fearful or selling stocks when greed takes hold and the "herd" is driving prices to unsustainable levels needs fortitude.

Managing investment risk requires discipline and patience. It can take years for industry cycles to play out and for bottom-quartile valuations to revert to top-quartile valuations.

None of this is easy. Company valuation is complex and requires expert skills, but the hard work is worth it. Buying undervalued assets in volatile markets allows returns to compound over time and amplifies wealth.

As people live longer, they will need to build more wealth for retirement. That means having a higher allocation to carefully selected equities within portfolios to generate greater returns.

This requires a new mindset towards volatility and risk. In the short-term, view heightened volatility as an opportunity for active managers to take advantage of mispriced assets. In the long-term, view risk as the potential of failing to generate sufficient wealth for a multi-decade retirement in an environment of rising living costs.

Most importantly, understand the differences and linkages between valuation, volatility, and long-term risk in the wealth-creation journey.

Why use Leenane Templeton Wealth Management?

Engaging with a qualified financial planner can be a game-changing decision that sets you on a course towards long-term financial stability and wealth accumulation.

Navigating the complexities of investments, retirement planning, tax strategies, and estate planning can be overwhelming. A financial planner not only brings expertise in these areas but also offers an unbiased, third-party perspective to help you make informed decisions. We can tailor a financial roadmap specifically for you, aligning it with your life goals and risk tolerance. Simply put, a financial planner is your ally in making the most of your financial resources, helping you avoid costly mistakes and maximizing opportunities for growth. Visit **www.LT.com.au**

Minimum pension payments return to normal (no more 50% reduction)

From 1 July 2023, superannuation members with account-based pensions are required to again take at least the standard minimum pension amount each year from their account. This is called the minimum pension payment and for existing income streams, it is a percentage of your account balance on 1 July.

The Government halved this minimum payment requirement for 2019/2020 in response to the COVID-19 pandemic. This was done to allow pension members to withdraw less of their retirement savings, to assist pension account balances to recover from capital losses during volatile markets. This was a temporary reduction that applied over the last few years and extended to 30 June 2023.

However, for 2023/24, the minimum drawdown amounts returned to normal levels as shown in the following table.

Age of member at 1 July	Minimum percentage factor
Under 65	4%
65-74	5%
75-79	6%
80-84	7%
85-89	9%
90-94	11%
95 or more	14%

Members can take more than the minimums stated above but run the risk of depleting their capital faster.

Income stream providers may contact you if you hold existing account-based pensions to confirm the level of pension payments for the new financial year.

SMSF trustees should also closely review the requirements to ensure that the minimum pension amount will be paid in the financial year. Failure to make the required minimum payments could result in significant penalties.

It's important to seek advice for assistance in managing your cashflow.

Power-hungry AI a watch-out for equity investors

In all the investor excitement about AI equities, investors may be missing a crucial factor. Pendal equities analyst Elise McKay explains.

Big US tech stocks are soaring on a wave of new, advanced AI applications.

But similar to Bitcoin's early days, excited AI investors may be overlooking the technology's extremely high power costs and potential associated sustainability issues, argues Pendal Aussie equities analyst Elise McKay.

Whilst the remarkable progress of AI promises to revolutionise industries, the sheer cost of the electricity needed to train and run the systems puts a question mark over the long-term prospects of adoption.

"There's three key components of power usage required for running a generative AI model," says McKay."First of all, there's the power needed to simply build the equipment that it runs on. Then there is the enormous power required to train the model. And then every time you ask it a question it requires new computations — and that means more power."

Even before generative AI became widely available, demand for data was expected to increase at a compound annual growth rate of 40 per cent per year. The data centre industry is already estimated to account for about 1 per cent of global energy demand, says McKay.

"Just because it's on your phone doesn't mean it's not in a data centre somewhere — and data centres need electricity. Any new technology just increases demand for power."

McKay uses the example of bitcoin mining, which rapidly increased its share of global energy consumption from next to nothing to an estimated 0.5 per cent in 2021.

"Emerging technologies like bitcoin mining can see very rapid adoption and dramatic increases in demand for power," says McKay. "We are now seeing the broad take up of generative AI, which is significantly more power hungry than existing technologies."

A study by Stanford found that training the popular GPT-3 generative AI system contributed almost 10 times the emissions that the average car consumes in its lifetime, says McKay.

Estimates are the newer GPT-4 model was eight times more power intensive again, she says. "And you don't just do this once, you do it regularly."

OpenAI — the company behind ChatGPT — says it continuously improves its AI model by "training on the conversations people have with it."

"And each model can only do one search at a time," says McKay. "So, if 100,000 people search for something at the exact same time you need 100,000 copies of the model otherwise queries will be queued.

Estimates are that every time you query ChatGPT, it is 300 times more expensive than a Google search."

High power usage has also raised question marks over the carbon footprint of the technology industry, with many providers shifting to renewable energy to minimise their impact on the environment.

"The high cost of providing AI will hinder its adoption," says McKay.

"It may mean that only companies willing to pay a high price will be able to use it. There's a good use case for companies willing to pay for it because it improves productivity, but will we see broad adoption for low-paying use cases?"

Beyond Bricks – companies powering organisational design to create a sustainable competitive advantage

Author: Francyne Mu – Portfolio Manager and Research Analyst, Franklin Global Equity Group

The history of societal progress is often told as the history of technological change. As managers of an investment strategy with a mandate to purchase companies driven by secular growth trends, we believe it's worth reflecting on how more subtle changes can act as a driving force at both the industry and company level to create new sustainable competitive advantages and profit pools.

In this article, we'll explore some of the companies held by Franklin Global Growth Fund that we see as innovating to enable better ways of doing business.

Rockwell Automation – Mining for efficiency

Today, technology like the internet of things (IoT) and machine vision is empowering companies to digitise their workflow process. Rockwell Automation is at the leading edge of building such IoT systems, one of which is their FactoryTalk InnovationSuite (FactoryTalk).

FactoryTalk is a software platform that combines advanced analytics, machine learning, and Industrial IoT (IIoT) capabilities to improve organisational design in manufacturing settings. By integrating data from various sources within the factory, this platform provides real-time insights and predictive analytics that enable better decision-making, improved efficiency, and reduced downtime. FactoryTalk connects to IIoT devices, collecting sensor data for analysis in the cloud. Advanced AI algorithms detect failure patterns and alert managers of potential issues.

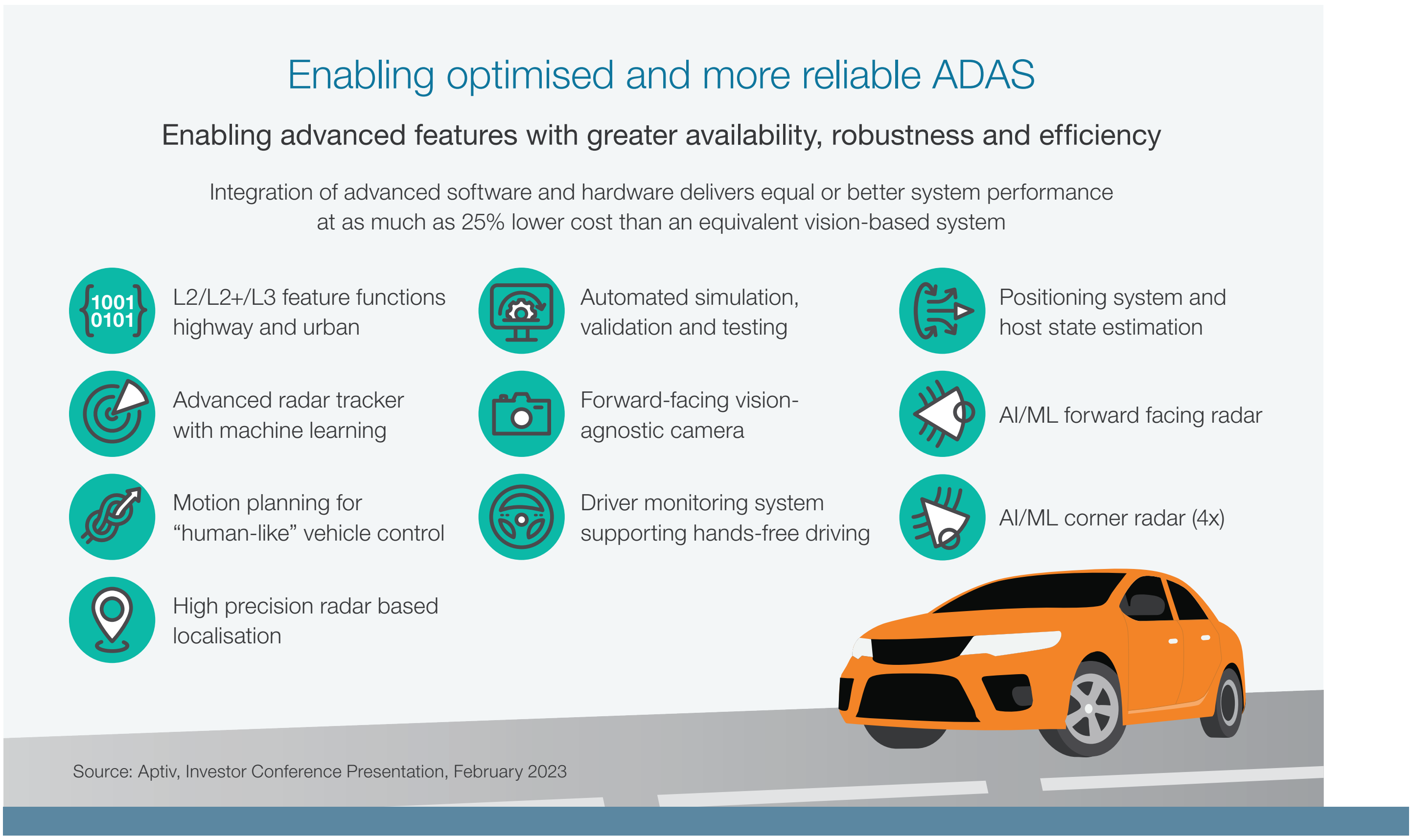
Rockwell Automation is well-positioned to shape the future of industrial automation and bring about positive change for businesses and society alike.

Aptiv PLC – Driving innovation

Aptiv PLC specialises in automotive solutions and transforming the automotive industry with its advanced technologies and systems. The company's expertise in areas such as vehicle connectivity, electrification, and advanced driver-assistance systems (ADAS) is enabling the development of more intelligent and connected vehicles. These advancements not only improve the driving experience but also pave the way for a more efficient and environmentally friendly transportation ecosystem.

Aptiv's integration of technological capital has the potential to create a sustainable business advantage by offering propriety systems that deliver a critical service. This will allow Aptiv to capture more of the automobile market value chain and place the company in a position to deliver attractive returns to shareholders.

Aptiv's journey from component integration to the development of advanced automotive systems and autonomous driving technologies shows what is possible. By embracing new technologies, Aptiv is well-positioned to shape the future of transportation and bring about positive change for society.



Source: Aptiv, Investor Conference Presentation, February 2023

Organisation design – The backbone of proprietary systems and processes

Organisational design plays a pivotal role in shaping the modern business landscape. Companies like Rockwell Automation and Aptiv are developing proprietary solutions to create sustainable competitive advantages.

In a fast-evolving world, we believe the power of organisational design will serve as a key driver for growth, fostering innovation and efficiency, and ultimately positioning businesses at the forefront of their respective industries.

What you can do to protect your personal information

In Australia we are seeing an increase in the number and sophistication of cyber threats.

With a 13% increase in cybercrime reports in the 2021-22 financial year, according to the Australian Cyber Security Centre, we know cybercrime is a real threat to all Australians.

Which is why it is important that we all do what we can to keep our data, systems and devices safe. We ask you to please check the sender address on all correspondence you receive, and never click on a link you are unsure of.

Here are a few simple, additional steps we recommend to help keep you cyber-safe:

Install anit-virus software on all your devices and regularly update the software

Use a strong password or unique passphrase and activate two-factor authentication where possible

Don't share your personal information or whereabouts on social media

Never give out your personal information over the phone unless you have properly identified the caller

We will not ask you to perform financial transactions over the phone

If you see an email from us that you think is a scam let us know

Thinking ahead? Let's talk about strategies for creating a positive financial future.