

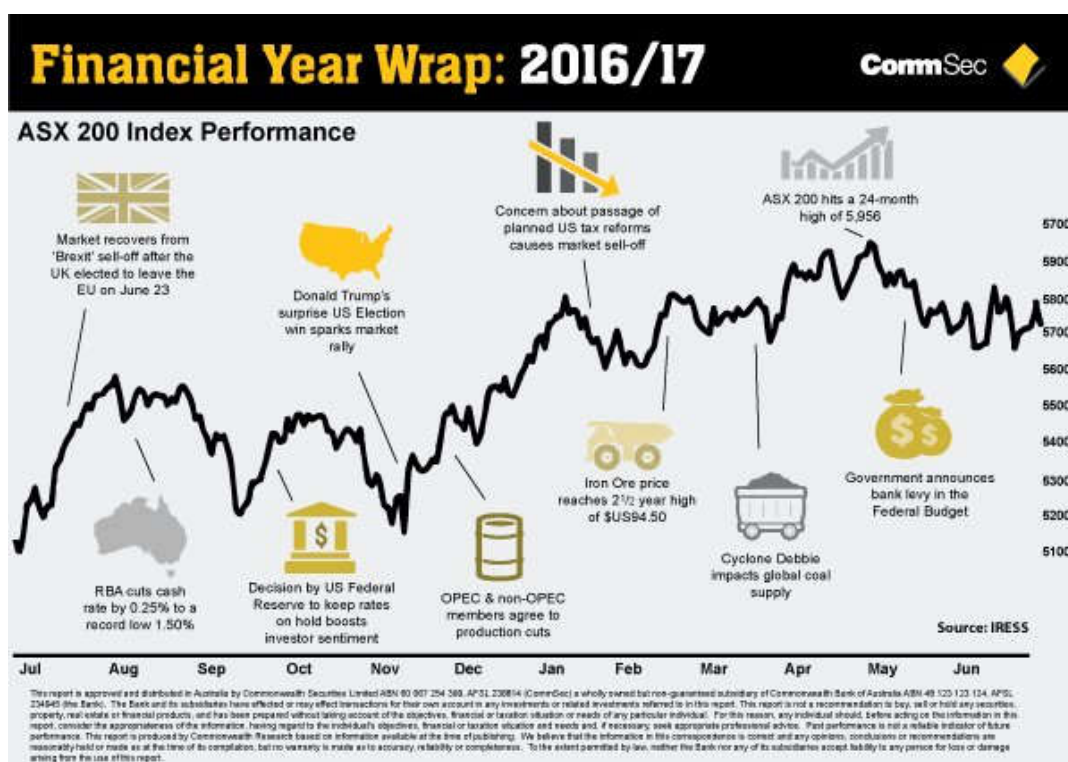
Welcome to the latest edition of the Axis Financial Advisers Newsletter.

In this edition of the newsletter, we will give our thoughts on the current state of various investment markets as well as an update on recently introduced legislation.

You will begin to receive annual statements from fund managers shortly and of course, please don't hesitate to get in touch if you have any questions.

### Markets

Markets managed to shrug off geopolitical concerns in 2016/2017. The following chart courtesy of CommSec shows the major issues which affected the Australian stockmarket over the past twelve months.



The "Bank Levy" which was introduced during the budget period was of particular concern. Whilst the financial impact from the levy will be minimal for shareholders, the issue I have with the levy is what it says about "political risk" in this country. When the big miners were making outsized profits, the then Labour government introduced the MRRT (Mineral Rent Resource Tax) and now the Liberal government has introduced the "Bank Levy".

This is not a good look for foreigners looking to invest capital into this country. I also don't believe it is prudent to introduce these extra taxes to cyclical companies whose profits can vary greatly through a market cycle. There is no doubt that the bank levy impacted sentiment for "financials" but also the broader market post the budget and the impact to share prices was significantly greater than the financial windfall it will generate for the government.

Globally, the only major issues were also political in nature. The election of Trump might reflect a peak in "populism" and if this were to be the case, it would be positive for sentiment going forward.

Europe is now in a fully-fledged economic revival. The hard decisions made by the EU post the global financial crisis have set up Europe for a more sustainable long term recovery.

The United States remains in a very strong position as well, but for entirely different reasons. The job market there remains very tight and wages growth is constrained, this represents a very good scenario for corporate profits to remain strong.

From a valuation perspective, I continue to favour global funds with lower exposure to the United States and higher exposure to Europe and Emerging Markets.

One asset to be wary of today are new apartments. I have prepared the following table comparing crane activity (roughly 85% is apartment construction) in our major cities to the United States (roughly thirteen times our population):

Major Australian Cities	Cranes July 17*	Cranes July 17	Major US Cities
Sydney	334	58	Seattle
Melbourne	146	36	Los Angeles
Brisbane	81	35	Denver
Gold Coast	30	34	Chicago
Perth	24	32	Portland
Canberra	19	22	San Francisco
Adelaide	15	20	Washington
Newcastle	4	18	New York
<b>Total</b>	<b>653</b>	<b>255</b>	

\*Data courtesy of RLB.

A rapid supply of new apartments will be coming online shortly. I would expect price falls in the next 12 – 24 months if interest rates remain at all-time lows. Any increase in interest rates could result in significant price falls in apartments.

The following table highlights returns from key asset classes to 30 June 2017\*:

Asset Class	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Cash	0.40%	1.80%	2.20%	2.50%
Australian Fixed Interest	1.00%	0.20%	4.30%	4.30%
International Fixed Interest	1.20%	0.50%	5.10%	5.50%
Australian Listed Property	-3.10%	-5.60%	12.20%	14.20%
Australian Shares	-1.60%	14.10%	6.60%	11.80%
International Shares (50% hedged and 50% unhedged)	3.40%	17.63%	11.31%	16.82%

\*The above returns were compiled from various sources. More information on the source of the data or compilation can be obtained by contacting Axis Financial Advisers. Past returns should not be relied upon to make investment decisions. The above table does not in any way constitute financial advice and should not be interpreted as such.

## Legislative Update

Some of the major rule changes to come into effect on July 1st were as follows:

### Superannuation

- Concessional Contribution Cap reduced to \$25,000 p.a. Importantly, it is possible for anyone (who is eligible to contribute) to make concessional contributions and the contributions don't need to be through a salary sacrifice arrangement for those who are gainfully employed.
- Non-Concessional Contribution Cap reduced to \$100,000 p.a.
- Transfer Balance Cap of \$1,600,000 is the maximum amount an individual can invest into retirement income streams.
- Transition to Retirement Income Streams will no longer benefit from tax exempt earnings.
- Increased contributions tax (Division 293 Tax) will apply to superannuation contributions for people who have assessable income over \$250,000 p.a. (previously \$300,000)

### Social Security

- Individuals who lost the Age Pension on the 1st January will once again be eligible for the Pensioner Concession Card. This is expected to be issued after the 9th October 2017.
- The earliest age someone can now claim an Age Pension is 65.5 (for those born between 1st July 1952 and 31st December 1953).

### Taxation

- The accelerated depreciation rules of up to \$20,000 for small business are extended for an additional 12 months until 30th June 2018.

Once again thank you to all the clients who have sent through referrals in the last quarter, your continued support is very much appreciated.

If you have any questions about this report or any other matter, please don't hesitate to contact me.

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