

MEDIA RELEASE

Industry Funds stand to gain at least \$20bn from SMSFs, within a year, if Labor's policy to deny franking refunds is implemented

Realm Investment House has reviewed the Labor policy proposal to deny franking credit refunds.

Should Labor's policy be passed, we project that at least \$20bn will be transferred from SMSFs to Industry Funds in 2019-20. This is based on:

1. projections reported by the Parliamentary Budget Office, when costing the proposal, that a quarter of listed shares held in SMSFs will be transferred to an APRA regulated environment;
2. An expectation that this will lead some SMSF investors to also transfer other parts of their SMSF arrangements to an APRA regulated environment; and
3. The pattern of contributions and net cash flows relating to APRA regulated Industry Funds and Retail Funds following the commencement of the Hayne Royal Commission.

Ken Liow, Partner of Realm Investment House, commented:

"If the policy is implemented, pension-phase SMSF investors will be encouraged to transfer their arrangements to fast growing superannuation funds where they will still be able to receive value for their franking credits. The Parliamentary Budget Office has projected that SMSFs will move 'around a quarter of the value of their listed Australian shares' to an APRA fund in 2019-20."

"If SMSFs also transfer some part of their other arrangements as well, we believe that over \$100bn will move from SMSFs to APRA funds."

"Given the recent pattern of cash flows relating to APRA funds, following the Hayne Royal Commission, Industry Funds stand to benefit in the transition. We infer that Industry Funds stand to receive over \$20bn in funds from SMSFs in 2019-20. "

"Even if the proposed policy needs to be adjusted to pass the Senate, perhaps by introducing a threshold where franking rebates will still be permitted, we still expect significant flows to Industry Funds as most refunds are paid to a relatively small number of large funds."

Media Enquiries:

Ken Liow

e: ken.l@realminvestments.com.au

m: 0419 118 421