



RECENT INSIGHTS AND TRENDS INTO SMSFs

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Topics on the agenda

- ▶ Market overview
- ▶ Advice opportunities in the SMSF space
- ▶ How SMSFs investment behaviour is changing in light of the ongoing pandemic
- ▶ SMSFs attitudes towards ESG

The Vanguard/Investment Trends SMSF Investor Report

Research purpose

This is the largest scale and deepest research into SMSF trustees' approach towards managing their SMSF, their attitudes towards advisers and their investment goals.

Research methodology

Quantitative online survey conducted between **March and April 2021**

It is to our knowledge the largest scale and deepest dive study into SMSF trustees.

Respondents came from a wide range of sources, including the Investment Trends panel. **Statistical methods were then used to calibrate** the sample collected to ensure it was representative of the target groups.

Total number of responses in each target group after data cleaning and validation: n=**2,523 SMSF investors**, maximum sampling error[^]: +/-2.0%

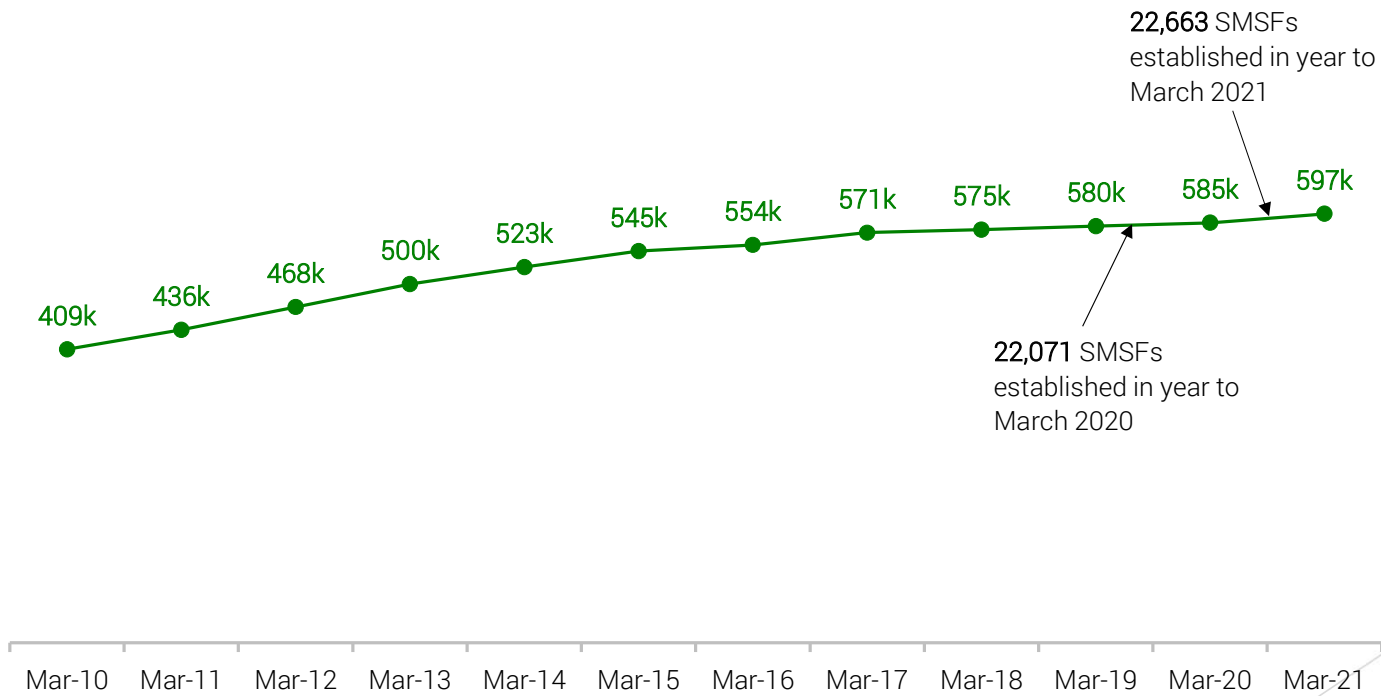
[^] 95% confidence interval, centre of the range. Smaller segments will have a larger margin of error

SMSF establishment continued to grow through COVID-19



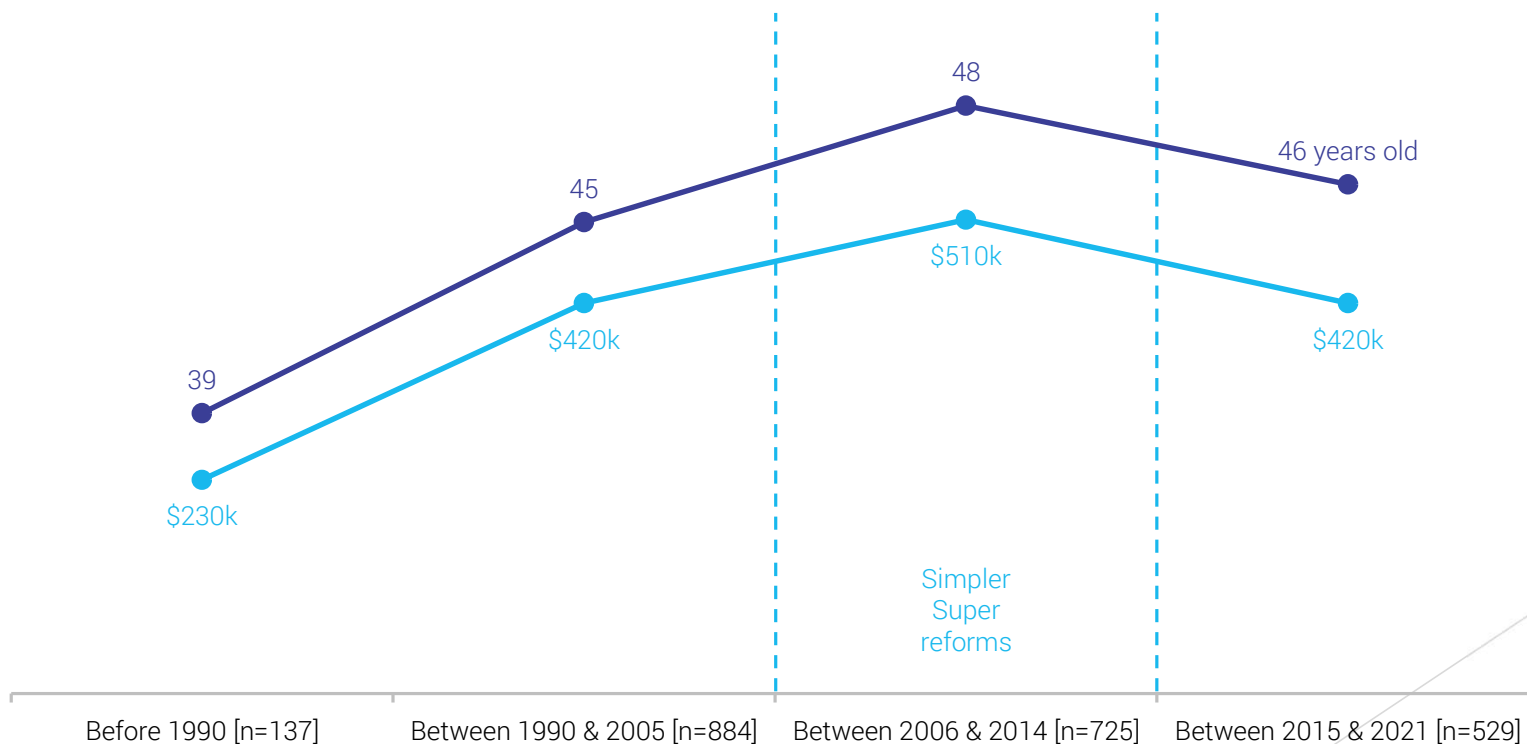
The total number of SMSFs continues to grow steadily

Number of SMSFs established
(Source: ATO Self-Managed Super Fund Quarterly Statistics Report)



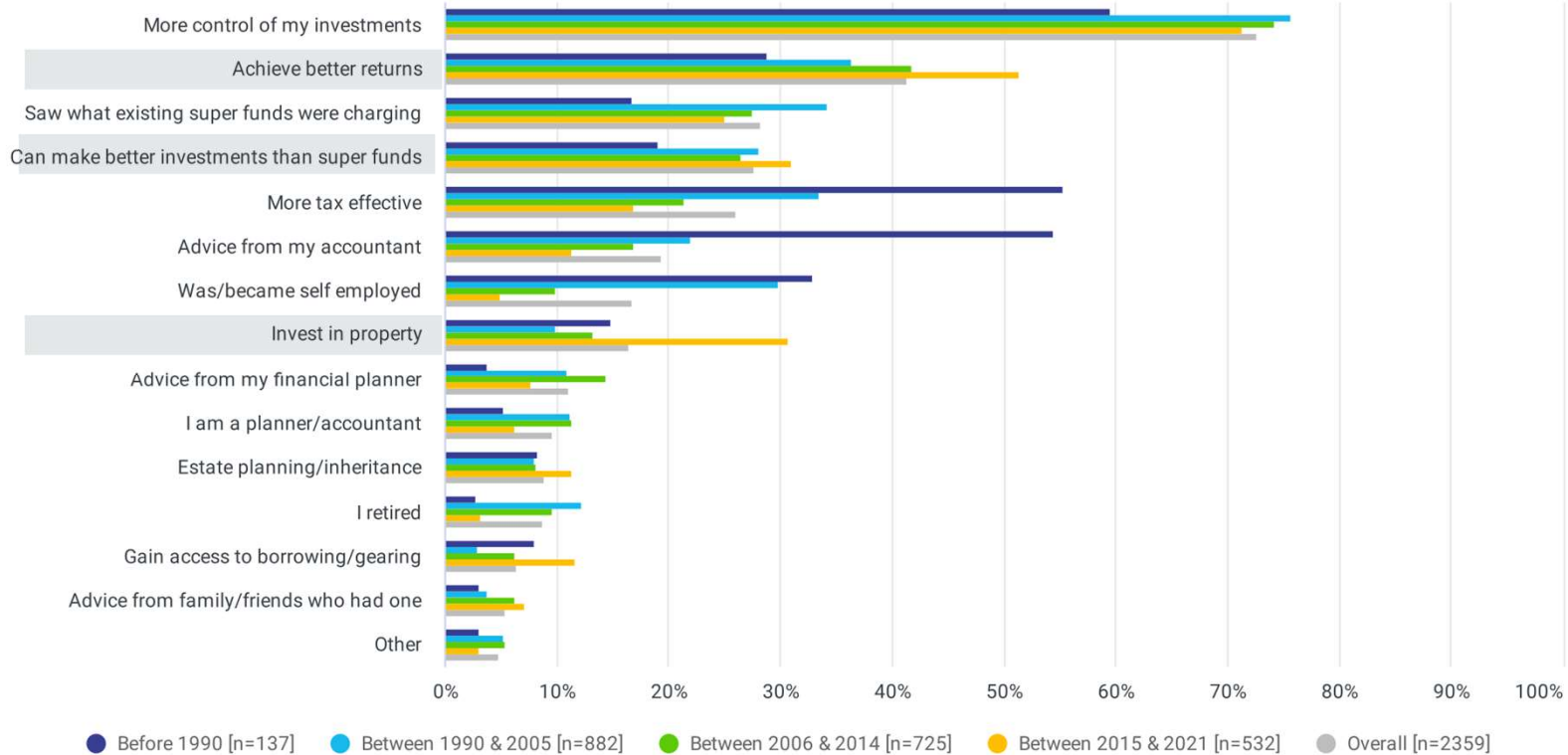
Newly established SMSFs are getting younger and are being set up at lower balances

Average age and balance
By When SMSF was established. Among SMSFs



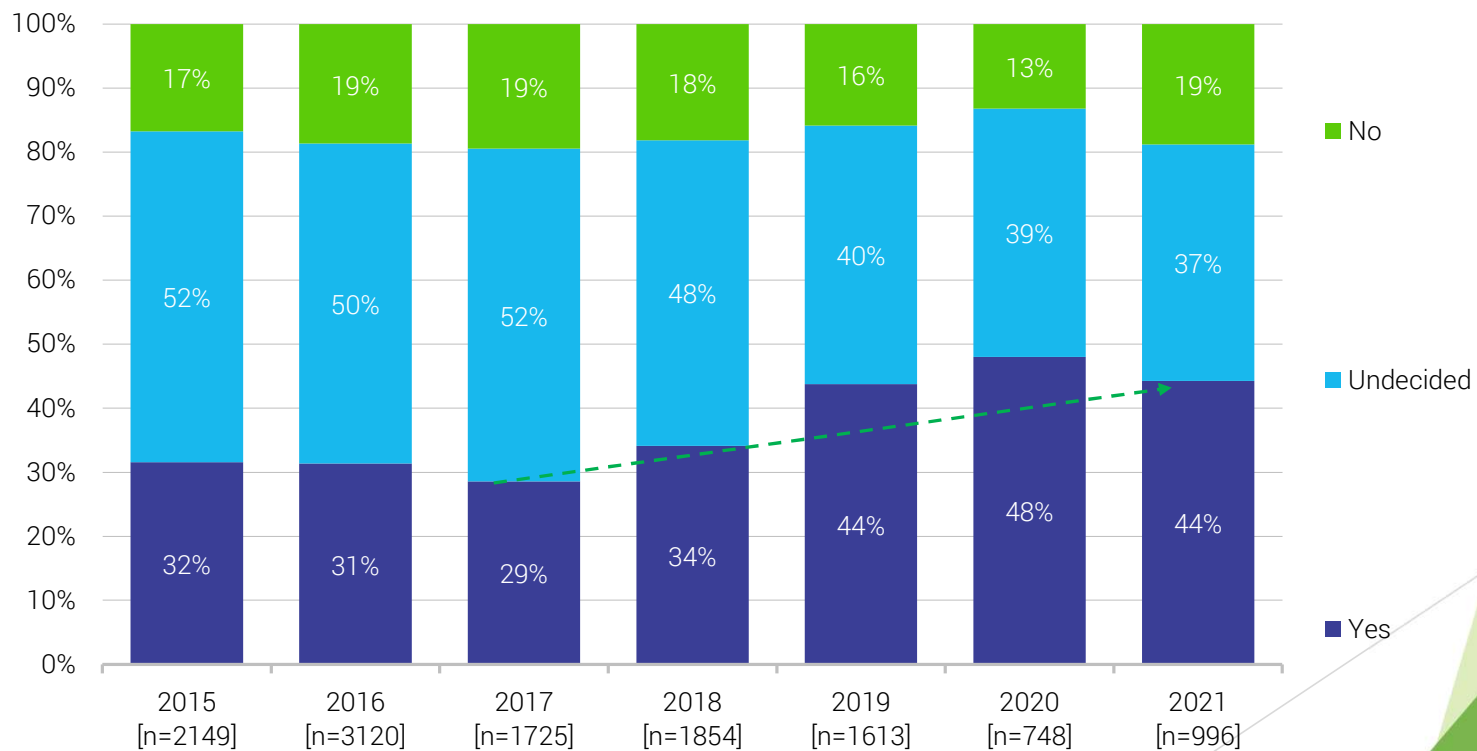
The reasons for setting up an SMSF have changed significantly over time. In recent years, a growing reason has been investors' perceptions that they can achieve better returns through an SMSF

Q2 What were the main reasons for setting up your SMSF? (Multiple responses permitted)
By When SMSF was established. Among SMSFs



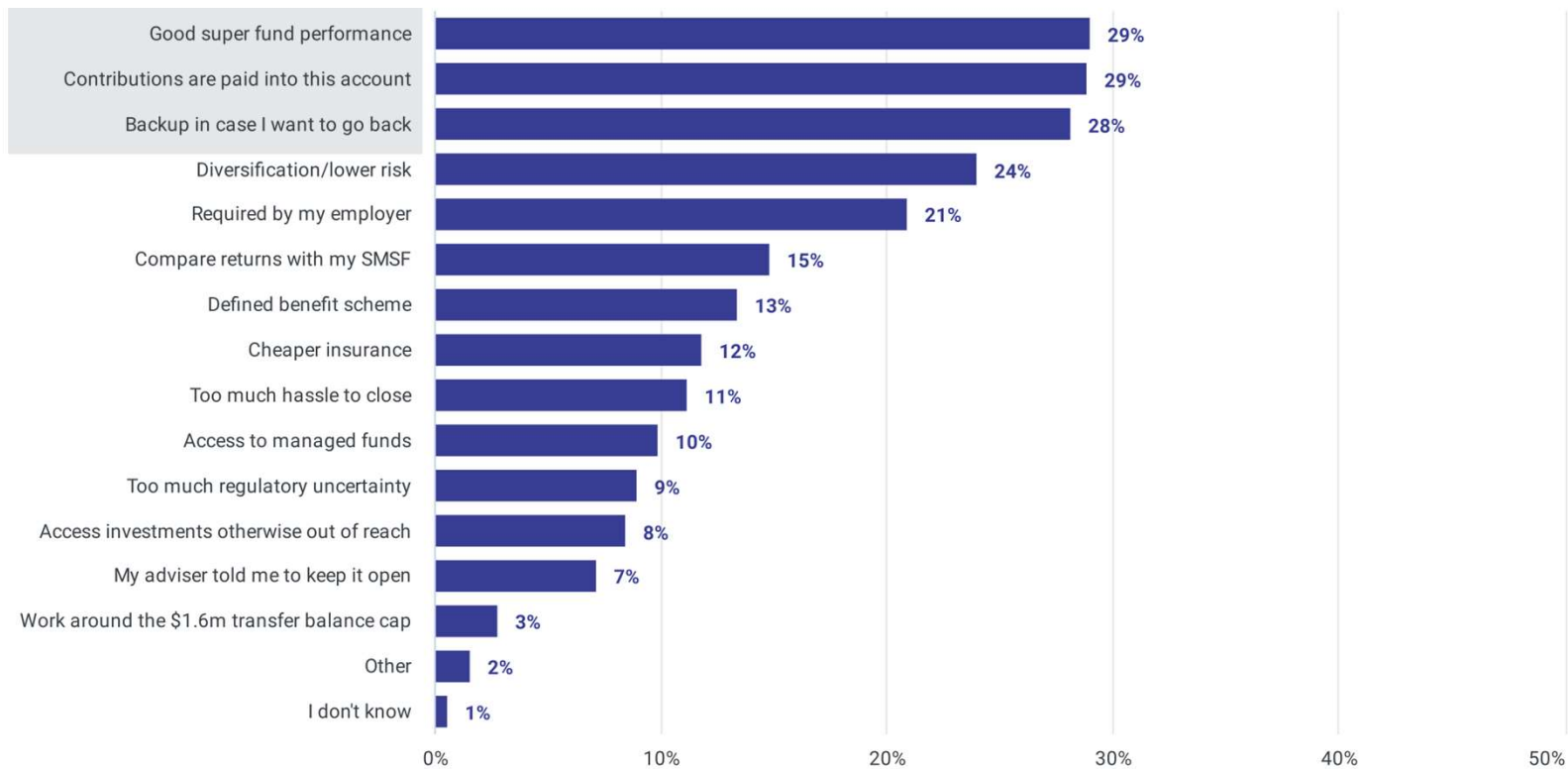
Most prospective SMSFs either intend to maintain a relationship with their current super fund after establishing their SMSFs or are yet undecided

Q14 Do you intend to keep your current super fund when you establish your SMSF?
Among potential SMSFs



Potential SMSF investors primarily want to keep their current super fund for their good performance or because contributions are paid into it. They also desire to maintain a back-up in case they change their mind

Q15 Why do you intend to keep your current super fund? (Multiple responses permitted)
Among potential SMSFs who intend to keep their current super fund when setting up an SMSF [n=448]

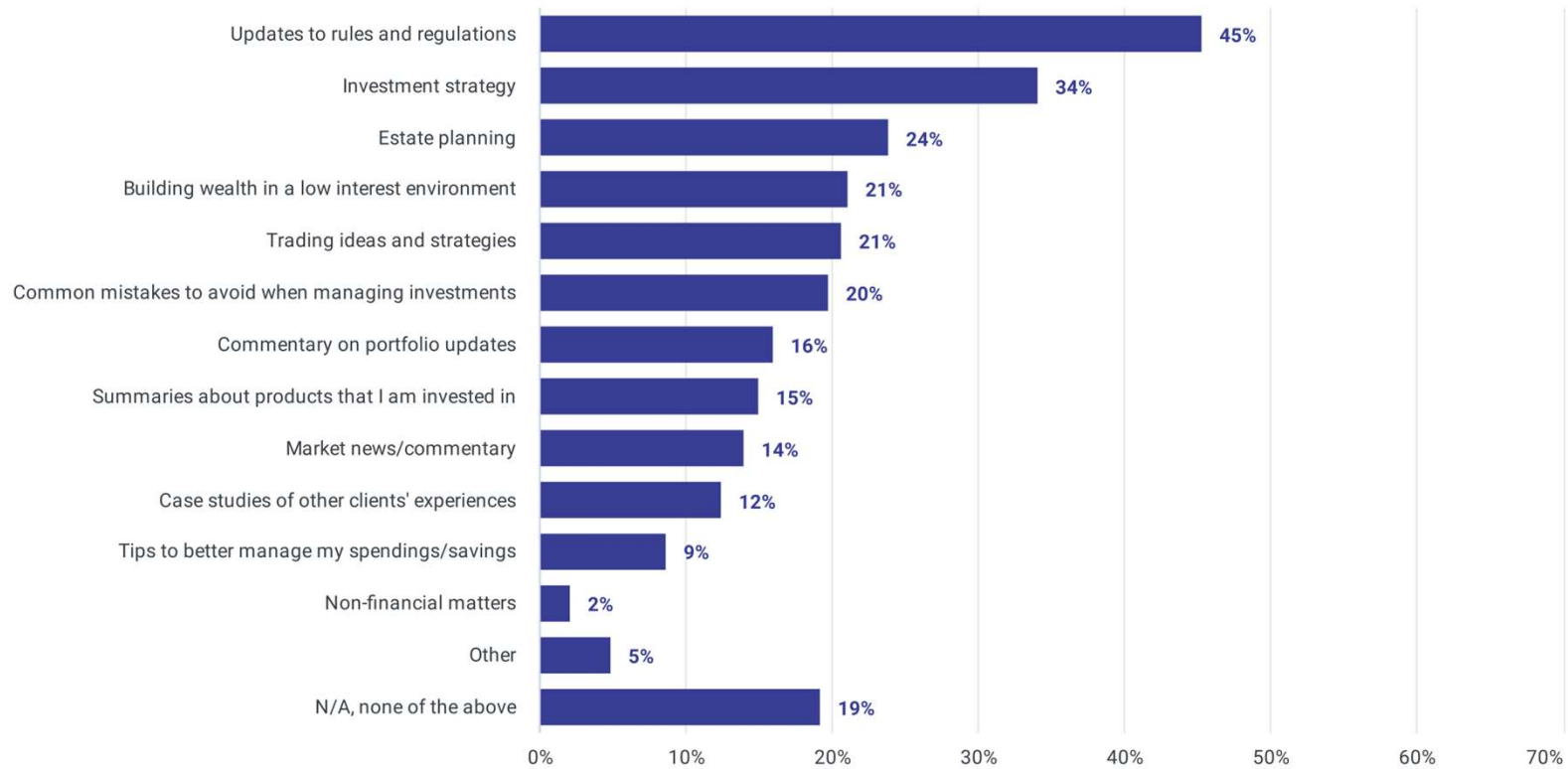


More SMSFs are warming up to financial advice



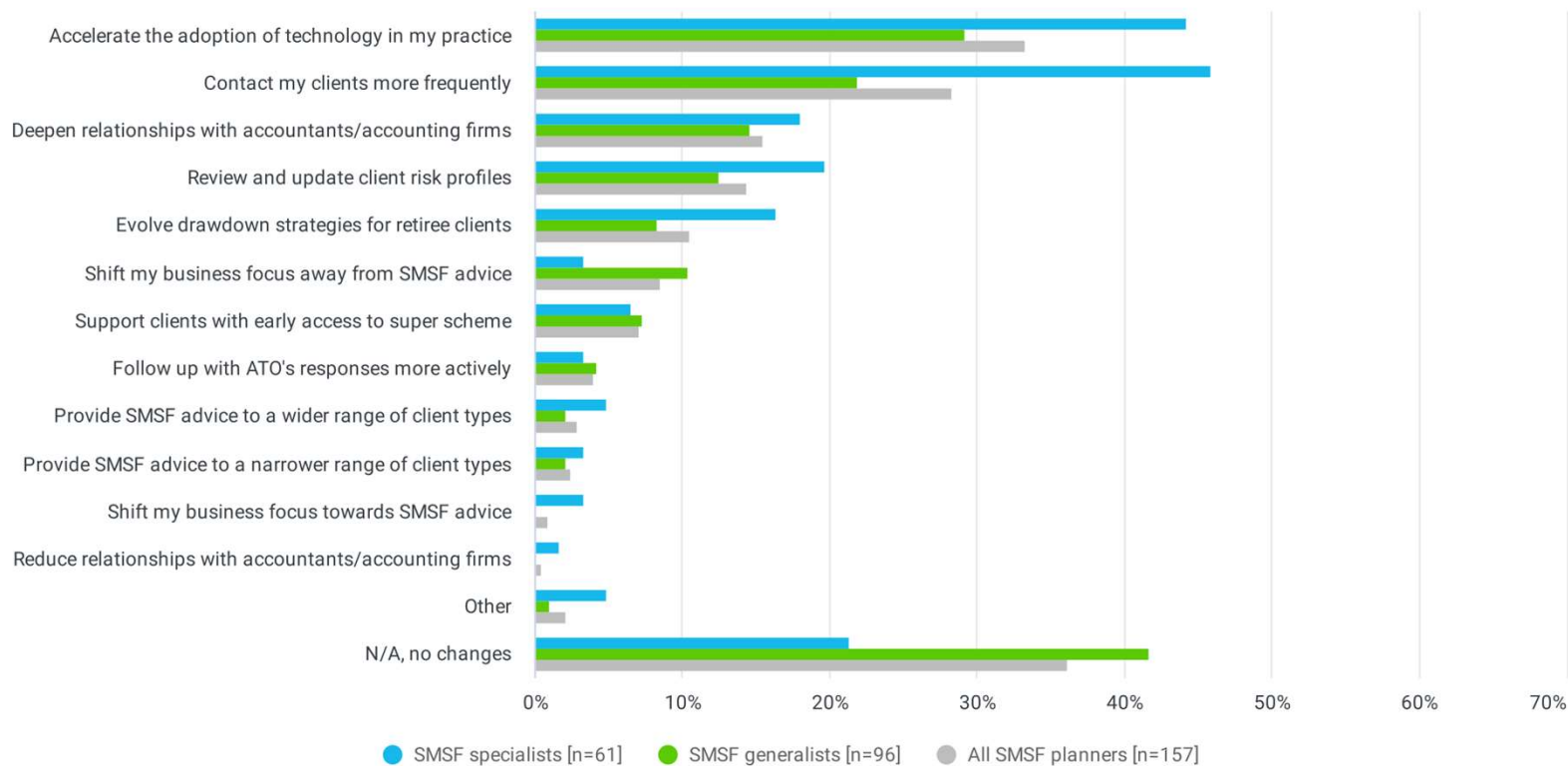
Among advised trustees, there is strong demand for more education content from their adviser, especially around regulatory updates, investment strategy and estate planning

Q35 What content can this adviser proactively deliver to better educate and inform you?
(Multiple responses permitted) Among SMSFs who use advisers [n=1757]



Advisers are responding to the challenge with the pandemic prompting many to accelerate the digitisation of their advice firm and increase engagement with their clients

Q29 What have you done differently when advising SMSF clients in the face of COVID-19 outbreak?
(Multiple responses permitted) By Number of SMSF clients. Among SMSF planners

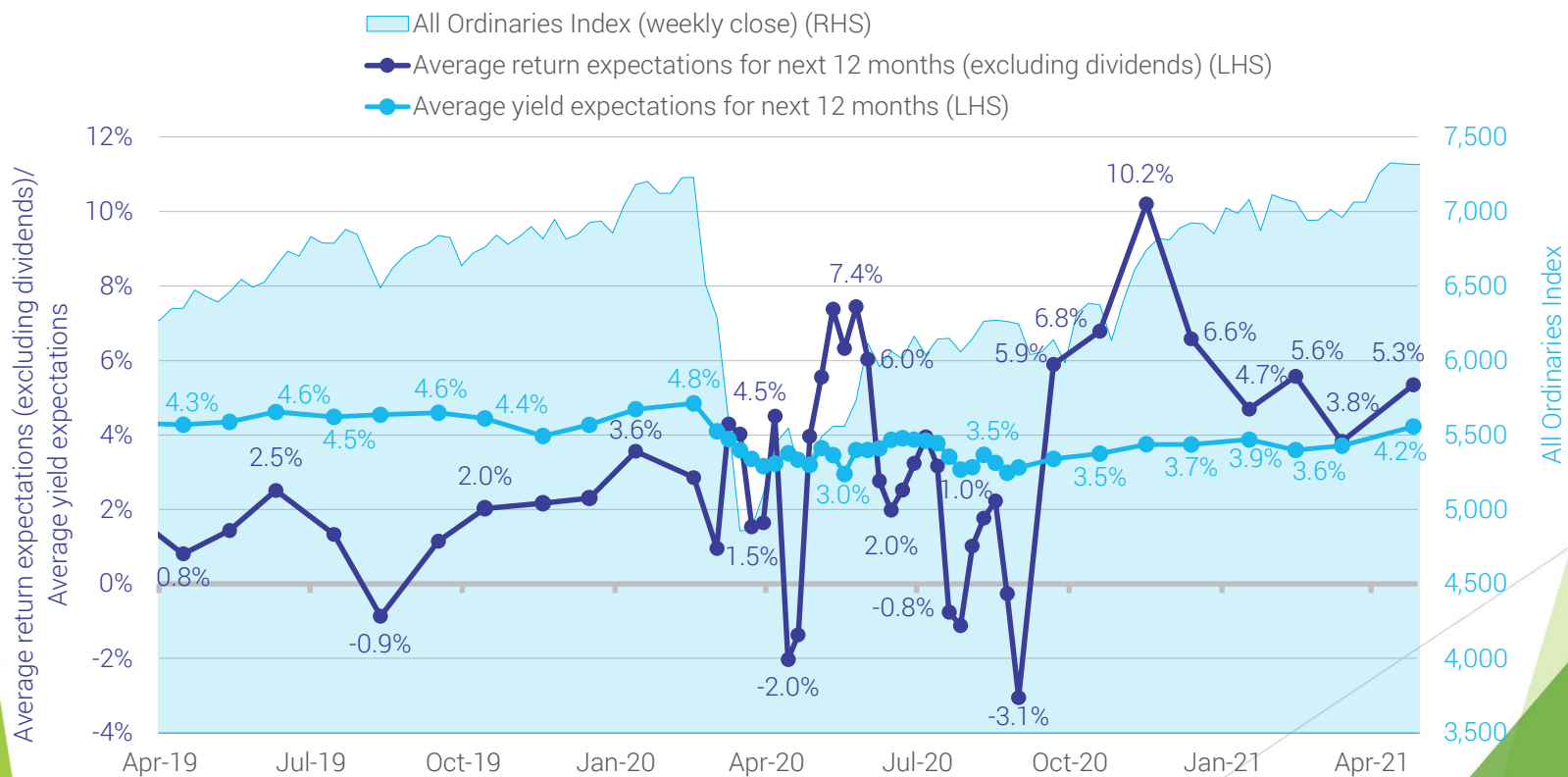


The low cash rate environment is driving appetite for equities - domestic and offshore



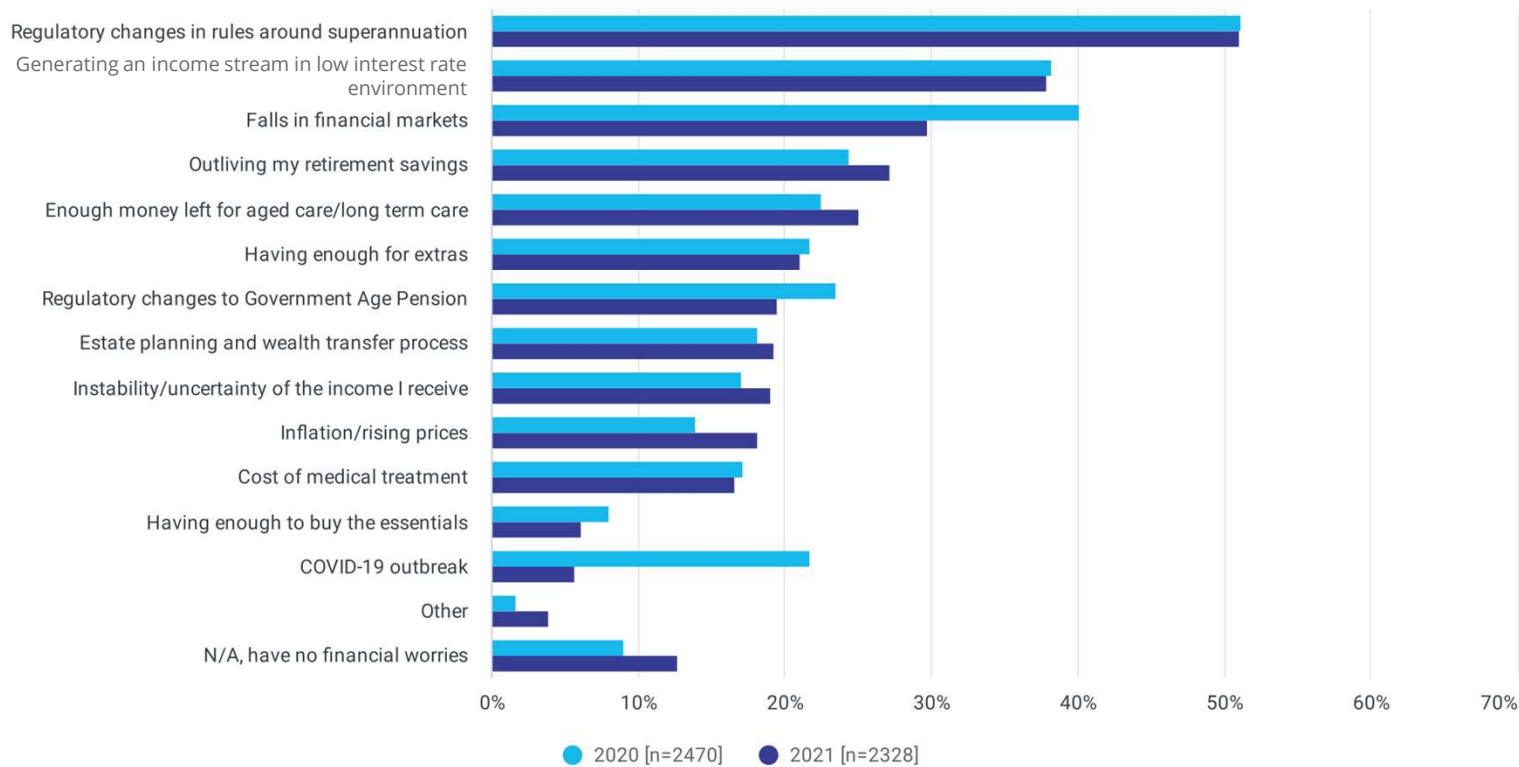
Capital gain expectations among SMSFs have seen large swings throughout 2020 but have begun to stabilise at an elevated level. The bullish sentiment is also reflected in their dividend yield expectations for the next 12 months

SMSFs' stock market and dividend yield expectations for the next 12 months vs All Ordinaries Index
Among SMSFs



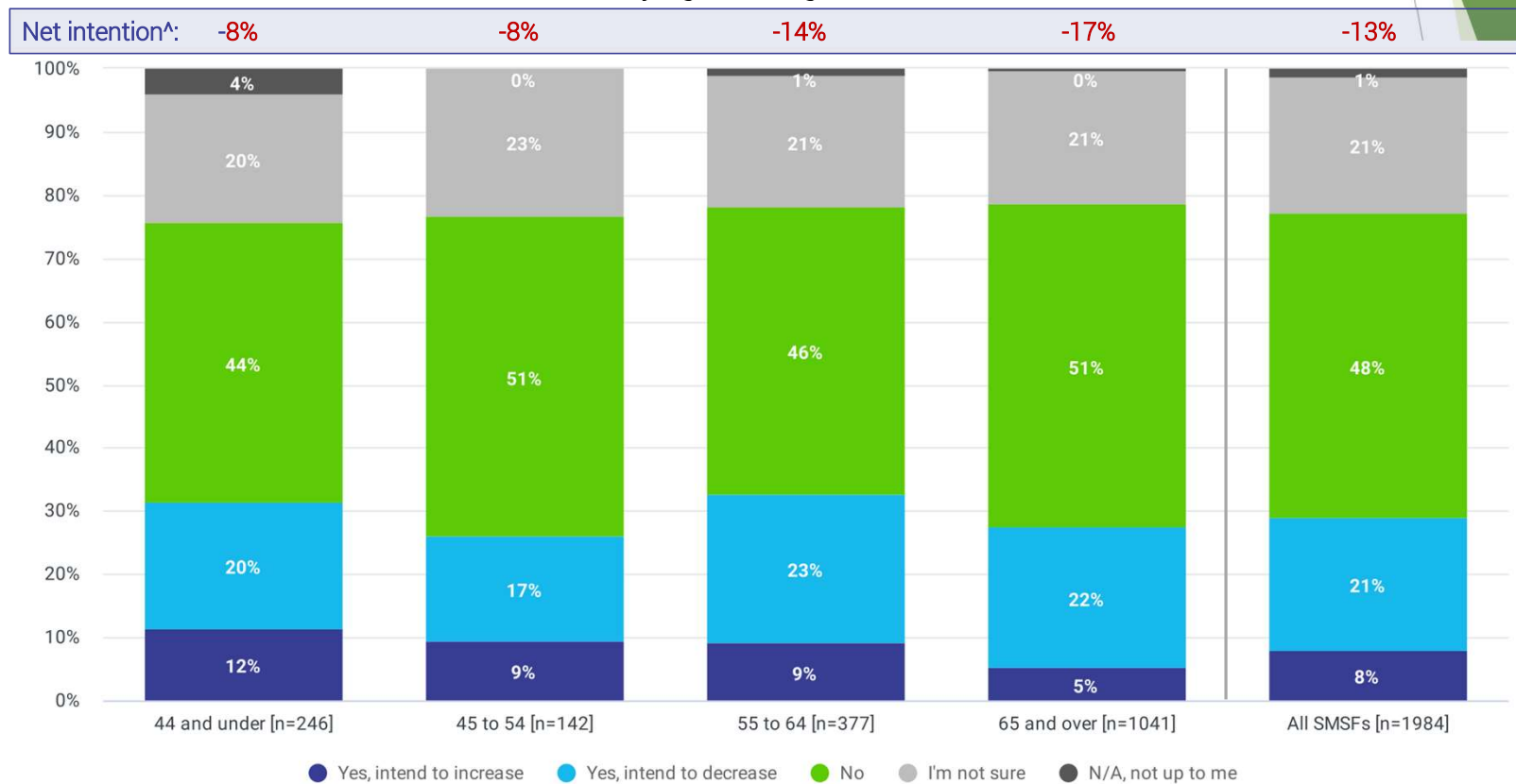
Generating income in the low interest rate environment remains one of the largest retirement concerns for SMSFs

Q10 Which of the following worry you with regards to your retirement? (Multiple responses permitted)
Among SMSFs



Looking at the next 12 months, SMSFs on a net basis intend to further decrease their allocation to cash. This intention is strongest amongst older trustees

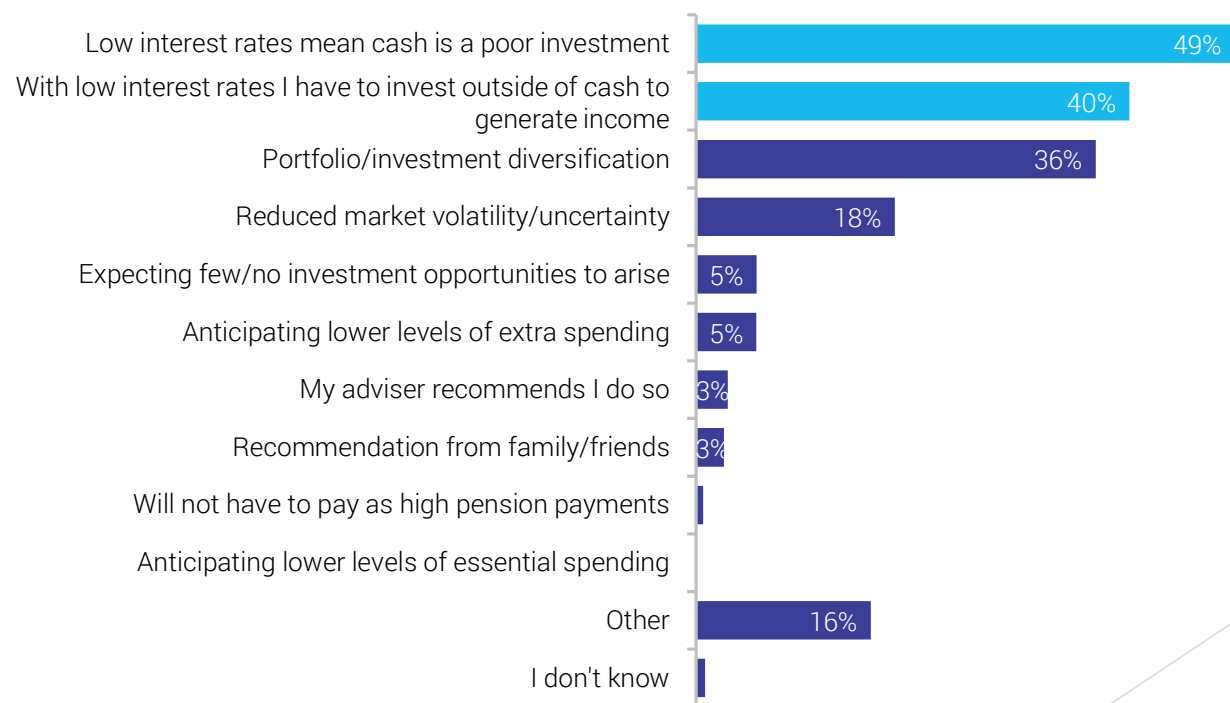
Q67 Do you intend to change the allocation to cash in your SMSF in the next year?
By Age. Among SMSFs



^Net intention= % of intend to increase minus % of intend to decrease

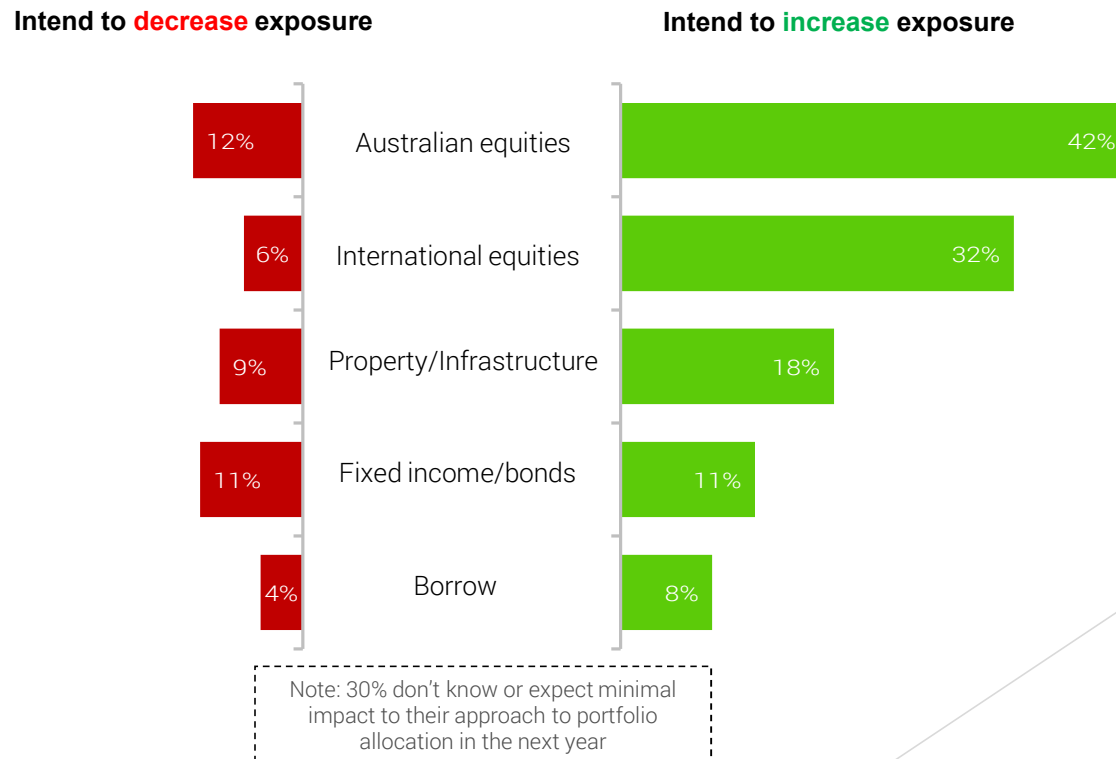
The low interest rate environment is fueling intentions to decrease allocation to cash

Q69 Why do you intend to decrease your allocation to cash in your SMSF in the next year? (Multiple responses permitted) Among SMSFs who intend to decrease their allocation to cash in the next 12 months [n=374]



SMSFs are most often looking to increase their allocation to domestic and international equities over the next year

Q100 With the current low interest rate environment, what do you expect to do differently with your portfolio in the next year? (Multiple responses permitted) Among SMSFs

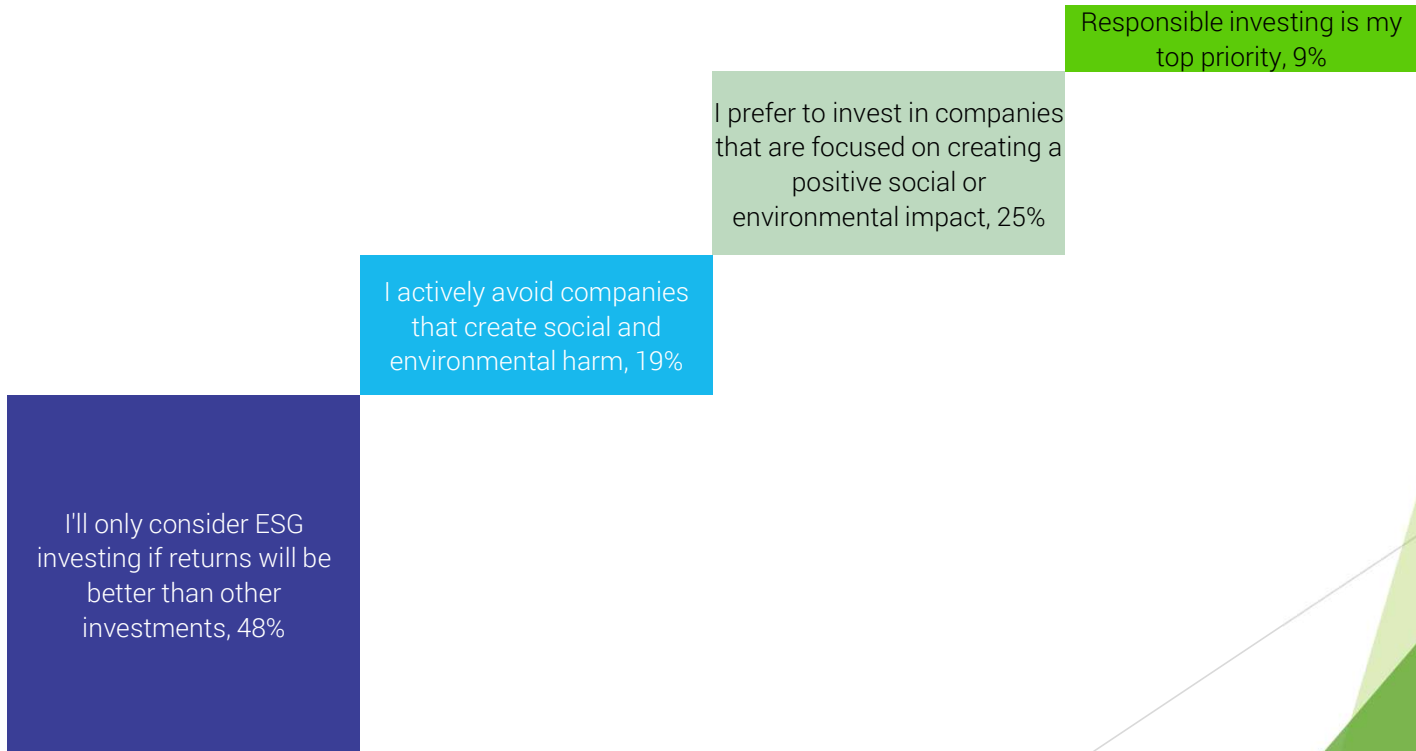


ESG investing - *SMSFs* are keen to make a positive impact through their portfolio

The right side of the slide features a decorative graphic composed of several overlapping, semi-transparent green triangles and polygons in various shades of green, ranging from light lime to dark forest green. These shapes are arranged in a way that creates a sense of depth and movement, extending from the top right towards the bottom right.

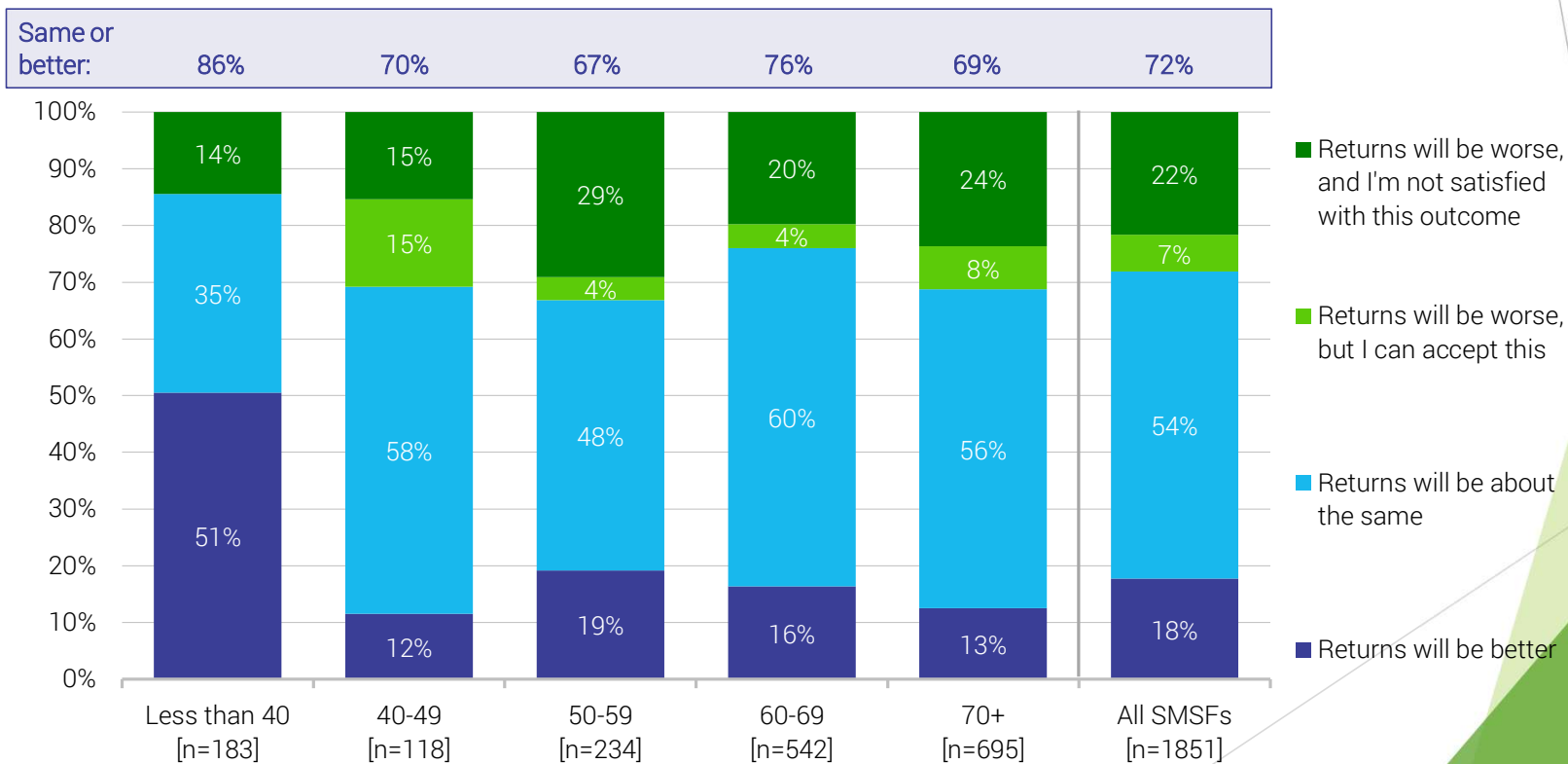
More than half of SMSFs would consider ESG investing even if returns are not better than other investments

Q98 Which of the following statements best describes your attitude towards ESG investing?
Among SMSFs [n=1860]



Most SMSF investors believe responsible investments will offer similar or superior long-term returns than non-ESG alternatives, with younger trustees the most optimistic

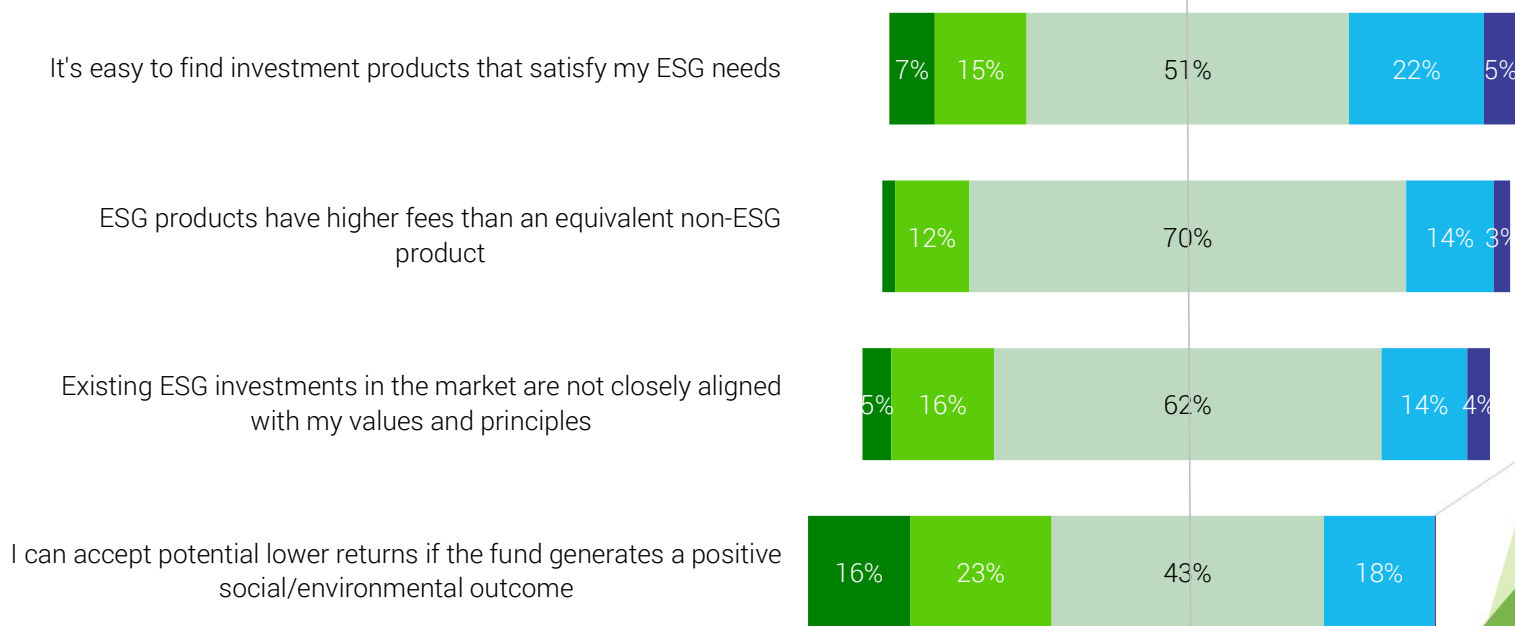
Q100 Compared to non-ESG investing, how do you believe investing responsibly will impact your portfolio returns in the long run? By Age. Among SMSFs



In relation specifically to managed funds or ETFs, SMSFs tend to agree it is easy to find products suitable for their ESG investing needs. Perceptions of lower returns can hamper uptake

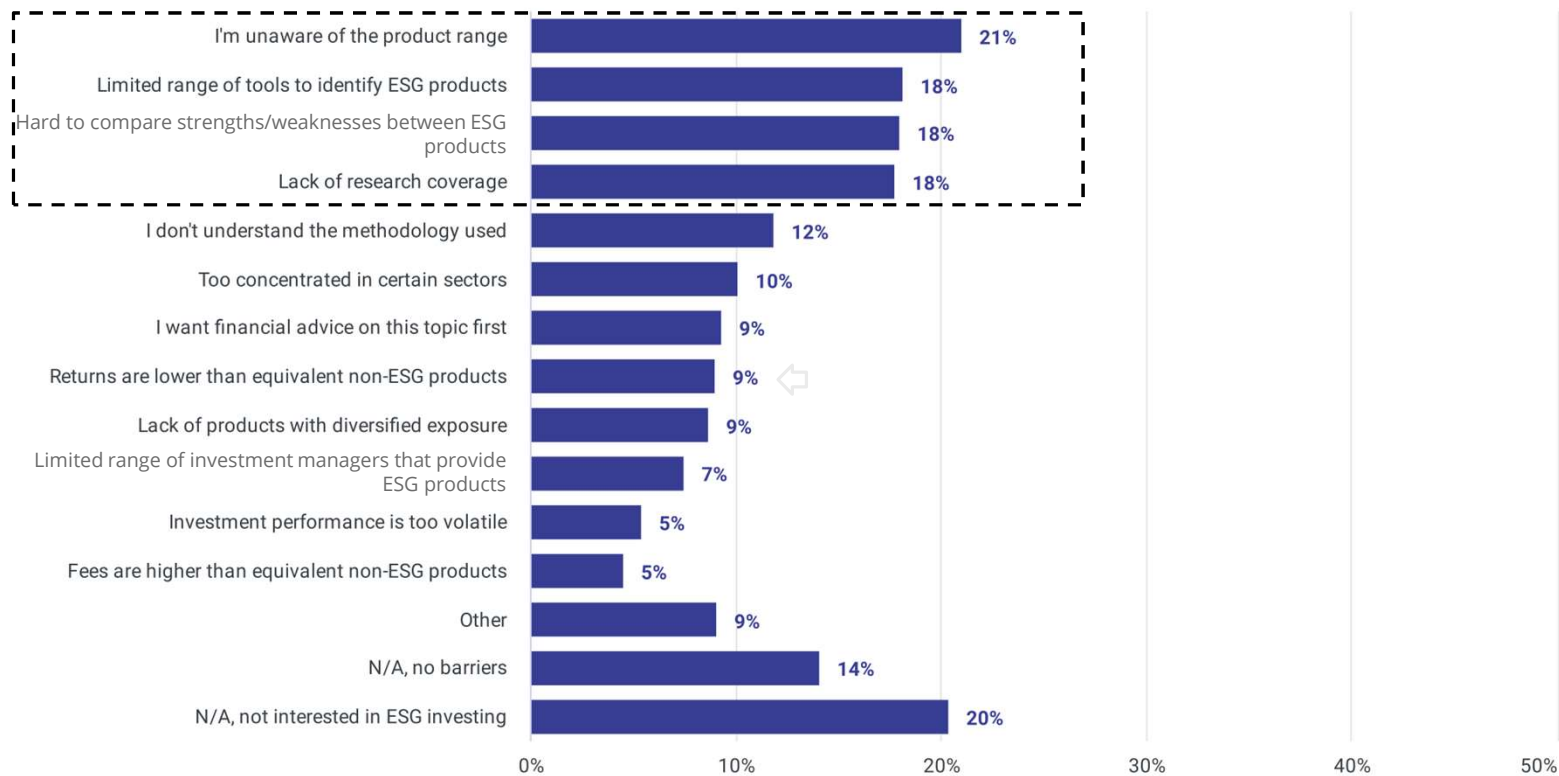
Q101 Do you agree/disagree with these statements about ESG investments (through products like managed funds or ETFs)? Among SMSFs [n=1864]

Strongly disagree Disagree Neutral Agree Strongly agree



More than concerns on performance, the key barriers to responsible investing among SMSFs are low awareness of product, limited product comparison tools and lack of research coverage - a clear opportunity for service providers and product issuers

Q102 What stops you from investing in ESG products more extensively? (Multiple responses permitted)
Among SMSFs [n=1875]



Recap of key themes

1. SMSF establishment continued to grow through COVID-19

- The total number of SMSFs continues to grow steadily in the 12 months to March 2021
- 22,663 SMSFs established in the year to March 2021, up from 22,071 in the year to March 2020

2. More SMSFs are warming up to financial advice

- More SMSF are “validators” – open to receiving financial advice (56%, up from 49% in 2020)
- In growing numbers, SMSFs recognise their need for advice, particularly around pension & contribution strategies, and inheritance & estate planning
- The pandemic has prompted many advisers to accelerate the digitisation of their advice firm and increase engagement with their clients

3. The low cash rate environment is driving appetite for equities - domestic and offshore

- Amid the Covid disruption, SMSF allocation to direct shares, ETFs and managed funds surged
- The trend looks set to continue as SMSFs intend to reduce their allocation to cash and increase their exposure to domestic and international equities

4. SMSFs are keen to make a positive impact through their portfolio

- More than one in two SMSF trustees would consider ESG investing even if returns are not better than other investments
- Providers can capitalise on this opportunity by raising product awareness, providing comparison tools and adequate research coverage

Thank you. Questions?

