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Weekly Review

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– Issue – 24 Mar. 2017

Steps to further regulate investor credit growth could put downward pressure on property prices in some cities.

BY CALLAM PICKERING • EUREKA REPORT • 23 MARCH 2017

Is the door closing on investment property?

It has never been more difficult for Australians to save a deposit and enter the property market.

That might seem like a big claim but it is backed up by recent data from the Australian Bureau of Statistics (ABS) that confirms that property valuations, as a share of income or rent, are well and truly in uncharted waters.

Key Point

- ***While Sydney and Melbourne are still running hot, other capital cities aren't enjoying anywhere near the same level of growth and some have gone backwards. The big question for investors is, has the property boom gone on too long?***

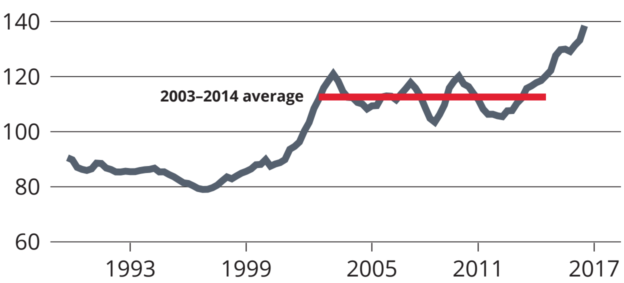
Australia's dwelling price-to-income ratio – a useful proxy for housing affordability – rose to its highest level in history in the December quarter and is likely to have pushed higher again in the months since.

The measure is currently 23 per cent above its average level from 2003 until 2014. That period was viewed as an era of consolidation for the property market. Big gains occurred in the late 1990s and early 2000s and then property valuations fluctuated as a share of income for over a decade.

There has been a clear decoupling in recent years as low interest rates and historically weak wage and income growth has sent property valuations into new territory. For the ratio to return towards that 2003–2014 average it will require a housing crash the likes of which few Australians have ever experienced.

The dwelling price-to-income ratio, however, is not a comprehensive measure of housing affordability. It doesn't incorporate interest rate payments, which helps to explain why it tends to increase when interest rates decline, but it does provide some insight into how difficult it is to save a deposit. It is, in other words, an excellent measure of the barriers first-home buyers face when entering the market.

Chart 1: Dwelling price-to-income ratio (Long-run average = 100)



Source: ABS; via CP Economics

It was no surprise then that housing affordability has once again become a hot topic. As I explained last week though, most of these measures proposed by state and federal governments are actually beneficial to investors since they increase the purchasing power of first home buyers and the benefit of that accrues mainly to existing property owners (***Affordability plans won't dent house prices***; 14 March).

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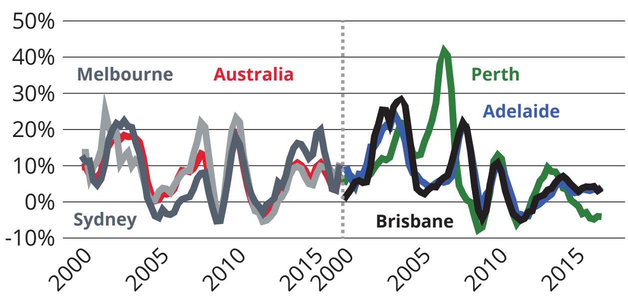
Perhaps more concerning is the increased speculation that the Australian Prudential Regulation Authority (APRA) may step in and reduce the speed limit they have applied on investor credit growth. Currently limited to 10 per cent annual growth there is speculation that this could be reduced further to 5 per cent, which if enacted clearly limits both the availability of credit for investors and the potential capital returns. A speed limit of this nature would see investor credit stabilise as a share of nominal GDP.

Such regulations are not implemented with an eye on housing affordability but with an eye on financial stability. APRA is effectively arguing that such a high level of investor activity poses a significant financial and economic risk for Australia; it would argue that it is saving investors from themselves since the regulator is better placed to see the big picture.

Chart 2: Australian nominal dwelling prices (Year-ended percentage change)



Source: ABS; CP Economics

Higher funding costs for our banking sector is another issue that could prove difficult for investors. We have already seen NAB and Westpac raise mortgage rates by 25 and 23 basis points, respectively, in response to the Federal Reserve rate hike last week.

The Federal Reserve is expected to raise rates another 50 basis points this year. Our local banks, who borrow a great deal from foreign banks in the United States, will pass that on in the form of higher mortgage rates. If you haven't fixed your home loan it may be the time to get around to it.

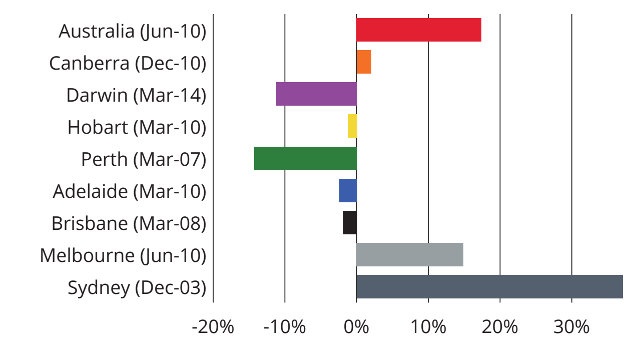
Perhaps the biggest risk though is that this upswing in Sydney and Melbourne property prices has lasted a lot longer than could reasonably be anticipated given the ongoing weakness in wage growth. Disposable income per household has, over the past two years, been rising at its slowest pace in at least a quarter century.

History suggests that the longer the upswing within the sector, in this case due to investor activity, the greater the eventual correction when it does arrive. Whether it occurs now or two years from now, I'd argue that there is currently greater risk in the housing market than at any point since the beginning of the global financial crisis.

City by city

Conditions, however, differ significantly from city to city. We tend to focus a great deal on Sydney and Melbourne, and much of my earlier discussion reflects that, but conditions have actually been quite weak across the other capitals.

Chart 3: Australian real house prices (Per cent change since previous peak)



Source: ABS; via CP Economics

Prices are rising by between 10 and 11 per cent in Sydney and Melbourne; however, prices continue to decline in Perth and growth remains quite moderate in Brisbane and Adelaide.

> “ **Property has been hugely profitable in our two biggest cities but hit and miss in our other capitals.**

What I find quite interesting about the Australian housing market is that, outside of Sydney and Melbourne, capital city prices remain below their earlier peak after adjusting for inflation. Property has been hugely profitable in our two biggest cities but hit and miss in our other capitals.

Prices in Perth, for example, are 14.3 per cent below their peak almost 10 years ago. Prices in Brisbane and Adelaide are still below their peaks established in March 2008 and March 2010, respectively.

It is a useful reminder that property isn't always a sound investment. Property prices can fall and that weakness can plague investors over a number of years. Investors buying in Perth a decade ago would never have anticipated that they had made such a poor deal.

I have said for some time that investors have a lot to think about in the property space. Has the boom gone on too long? Are the potential gains worth the additional risks? And, are they sure that APRA won't spoil the party?

The answer to these questions will ultimately determine whether you want to enter the property market right now or expand your existing portfolio.

Kites are being flown to make buying property somewhat easier, but they're not destined for great heights.

BY BRUCE BRAMMALL • EUREKA REPORT • 1 MARCH 2017

Super is not a housing affordability solution

Aha. It must, officially, be time to hyperventilate over property prices.

The 'unaffordability crisis' is nightly news again.

Key Point

- ***SMSF property investors need to keep a self-interested eye, close to home, on the current housing affordability debate. Potential policies differ on a state level, which can override what's happening on a Federal level.***

Political leaders are increasingly jawboning about strategies to help first-home buyers. Occasionally, they just get silly enough to act on it. History has shown this is usually disastrous. So much of the time they get it horribly wrong and end up adding fuel to the fire.

In the last week, this has seen kites being flown for two potential 'solutions' – both of which would have an impact on superannuation and retirement incomes.

Reportedly – and reportedly means media speculation and rumour and nothing more – both are up for consideration by the Federal Government.

The first of those two proposals is to allow younger Australians to access their superannuation to purchase a home. We've dealt with this idiotic, self-interested, idea on several occasions in recent years. But it needs to be dealt with again.

The second is a concept to reduce the disincentives for older Australians who wish to downsize their homes and release equity for income streams as they approach retirement.

And both of these scenarios have potential impacts beyond those who are obviously affected – more broadly on self-managed super funds which are, increasingly, involved in the residential property market.

Using super to buy homes… is A-grade dumb

The news cycle is short, I know. But it's only about 2.5 years ago that Senator Nick Xenophon raised the idea of allowing young Australians to access their super to buy their first home. And was embarrassed by how roundly he was shouted down.

Now, there is speculation – denied by the Government – that it is looking at the proposal again as part of this year's Federal Budget.

It's stupidity on a grand scale. Nothing has changed in relation to this argument in the last 2.5 years. **Here** is what I wrote in response to Senator Xenophon at the time, and a later floating of the idea in more pre-Budget speculation **here** by then Treasurer Joe Hockey.

The concept is incredibly flawed and fails Economics 101. Those arguing in favour at the time cited Canada as their prime example. Canadians could access up to $25,000 in super to buy a new home, but were supposed to pay it back within 15 years, or face tax penalties.

About half of these Canadians repaid not a single cent. The rest somewhere between zero and what they should have.

It would do nothing more than push up the bottom end (the first-home buyer market) even further.

Now, however, we have some further research to add to the 'no' argument. Actuaries Rice Warner say that allowing a 35-year-old on average wages to pull $100,000 out of super as a deposit for their first home would cost the Government $92,000 (in today's dollars) in extra age pension payments when that couple retired.

And I've not yet read about the 'tax dodge' that would occur if people knew they could get their hands on their super to do so. For a few years before they wanted to purchase, they would 'salary sacrifice' to the max, swapping a 34.5 per cent or 39 per cent marginal tax rate for a 15 per cent super tax rate to super-size what they could get out of super faster.

Well, the smart, or well-advised, ones would do that. About a 20c to 24c in the dollar tax incentive to get money into super, so you can withdraw it for a bigger home deposit.

The idea needs to be burned, or have a stake put through its heart. The only people who support the idea are the self-interested. That is, the real estate industry, property developers, mortgage brokers and, of course, some politicians who don't understand economics, but think there might be a vote in it.

Even Senator Xenophon is now cautious: "We need to learn what has happened previously [in Canada] … I don't want

“If the Government were silly enough to allow people to access their superannuation to buy property, SMSF investors should have a right giggle all the way to the bank.

to do anything that would be inflationary,” Xenophon said in the last week.

One ABC reporter, however, went a little far. While I loved the headline, “Superannuation for housing deposits would facilitate intergenerational theft”, the idea that younger Australians accessing super to purchase property would create a Ponzi scheme is childish.

Ponzi schemes, as pointed out in the article, are run by criminals like Bernie Madoff. The Australian property market, no matter how hot it gets, is not run by criminals. It is not one scheme promoter stealing from one investor to give to another, earlier, investor.

The winners from such a policy

As I have pointed out earlier, the beneficiaries are those who are selling property to first-home buyers (currently, roughly, Gen Y).

This could extend to members of Gen X, who are moving on to their second homes, Baby Boomers selling their investment properties, and property developers (both inner-suburban density developments and house and land packages on the outskirts).

And, of course, SMSFs, who have been quickly accumulating predominantly lower-end property, with the help of the limited recourse borrowing arrangement (LRBAs) rules.

I should declare that I would probably benefit from seeing a policy like this go through (as a mortgage broker, financial adviser, property investor and SMSF property investor). But it is a rubbish policy that would fuel a bubble and only make things tougher for the next generation. I’m certainly arguing against self-interest.

A drawcard for downsizing?

Also, apparently incentivising those who would like to downsize their family home is being considered.

Downsizing, in theory, should allow older Australians to get a property that requires less physical and financial maintenance and release equity to be used for retirement.

If you could sell, say, a $1.3 million home and downsize to a $900,000 unit, arguably you could release around $400,000 to use for your retirement.

Of course, it doesn’t work like that. First, there are the sales costs of selling the home. Then there are stamp duty costs. This could chew up around $100,000 of the $400,000.

But then you have, say, $300,000 in extra assets… and this might impact on your ability to receive a full, or part, government age pension. Particularly so in light of the changes that came into effect in January, which dramatically lowered the cut-off thresholds in assets to receive a part-pension from around $1.178 million to around $816,000 for a couple.

Alternatives to avoid those penalties include holding on to the more expensive houses (because homes are exempt from the assets test) and using reverse mortgages to slowly access that equity.

But it appears the government is giving some consideration to helping older Australians downsize, without it having the added impact of cutting them off from their pension.

These might include quarantining the released equity from a home sale for a period.

What would be the impact on property prices? Well, I’d argue that the greatest number of sales would probably be selling the equivalent of second homes to repurchase properties back in the traditional first-home buyer market. It could actually exacerbate demand for those properties.

The impact on SMSF investors

If the Government were silly enough to allow people to access their superannuation to buy property, SMSF investors should have a right giggle all the way to the bank.

Many of those same SMSF investors, who are also investors in typical first-home buyer property outside of super, should laugh doubly. But it shouldn’t, and fingers crossed, won’t happen.

SMSF property investors need to keep an eye on the situation in their home markets, however. So much is happening on a state-by-state basis, which can override any bigger picture changes being considered by the Federal Government in its upcoming budget.

The information contained in this column should be treated as general advice only. It has not taken anyone’s specific circumstances into account. If you are considering a strategy such as those mentioned here, you are strongly advised to consult your adviser/s, as some of the strategies used in these columns are extremely complex and require high-level technical compliance.

Managed super funds came back from falls in January to deliver modest returns to investors in February.

BY LAURA DAQUINO • EUREKA REPORT • 21 MARCH 2017

February's flat end delivers modest super returns

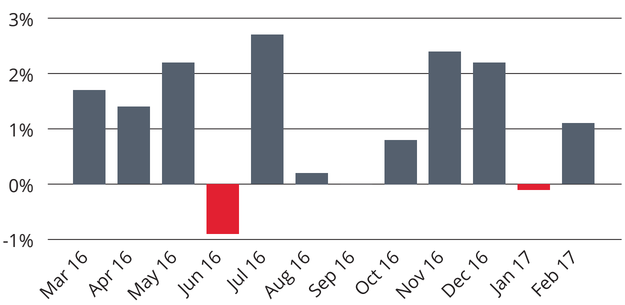
The Australian share market gained solid ground for half of February, but Australian super funds delivered a more moderate performance for the month.

Key Point

- ***February's returns were relatively subdued, buoyed by property and share market highs.***

Superannuation research house SuperRatings reported this week that the median balanced return from managed super funds in February was 1.1 per cent. Meanwhile, separate data from another research firm, Chant West, reported a 1.2 per cent return, based on an allocation of 61 to 80 per cent in growth assets.

Chart 1: Median balanced (67–70) option monthly returns



Source: SuperRatings

This data is up from January, where both research houses revealed super funds achieved negative monthly returns for the second time this financial year.

Commenting on the February uptick, SuperRatings chairman Jeff Bresnahan said investors should welcome the stability.

"What we have seen so far in 2017 is some stability in superannuation returns following what was potentially a bit of hype at the end of 2016," said Bresnahan.

"Investors do not want to see markets getting too carried away, especially when there is still a fair amount of political and economic uncertainty globally.

"Looking over the past 12 months, only three months have seen negative returns, and these have been small, especially compared to the larger positive gains we saw at the end of 2016.

"Super balances seem to be in reasonable health, so investors should not panic if we do experience bumps."

Any bumps aren't nearly evident in the 12-month return data, with SuperRatings showing the median balanced investment option rolling one-year return to the end of February reached 11.3 per cent – the highest since April 2015.

In light of overseas politics and economic uncertainty, Chant West director Warren Chant said growth funds have performed better than expected this financial year, led by property and listed shares.

Leading property indicator, the S&P/ASX 300 A-REIT Accumulation Index, gained 4.1 per cent in February, after a 4.7 per cent fall in January.

Table 1

	ACCUMLATION RETURNS (%)	PENSION RETURNS (%)
MONTH OF FEB 17	1.1	1.3
FINANCIAL YEAR RETURN TO 28 FEB 17	6.7	7.2
ROLLING 1YR RETURN TO 28 FEB 17	11.3	12.6
ROLLING 3YR RETURN TO 28 FEB 17	7	7.3
ROLLING 5YR RETURN TO 28 FEB 17	9.2	10.1
ROLLING 7YR RETURN TO 28 FEB 17	7.9	8.6
ROLLING 10YR RETURN TO 28 FEB 17	5.1	5.6

Australian shares from the consumer staples and health care sectors performed particularly well last month, rising 4.9 per cent and 3.8 per cent respectively.

"With share markets up further so far in March, we estimate that growth funds are up more than 7.5 per cent over the financial year to date," said Chant.

> **The median balanced investment option rolling one-year return to the end of February reached 11.3 per cent – the highest since April 2015.**

"So with just over one quarter remaining, there is a good chance that they'll deliver an eighth consecutive positive financial year return. This is particularly impressive given the economic and political uncertainty that has been prevalent over the past few years."

Longer-term returns for super continue to sit close to funds' inflation targets, with the seven-year return sitting at an estimated 7.9 per cent per annum.

SuperRatings noted signs of rising inflation in major economies, and the latest rate hike from the US Federal Reserve could herald the start of a tightening cycle.

This may create a more challenging environment for super funds, if expansion yields fail to keep pace, but steady inflation with higher rates of growth would positively impact super funds, according to SuperRatings.

Attend our SuperAdvice events to learn the financial steps you need to take before June 30.

BY ?? • EUREKA REPORT • 1 MARCH 2017

InvestSMART Forum: Super is changing, are you ready?

Three months – that's effectively all you have left.

On July 1 this year a series of major new superannuation and pension rules will come into effect that will impact millions of working Australians and retirees.

Are you familiar with all the changes and, more importantly, are you prepared for them?

Whether you are still in accumulation mode or in retirement, understanding all the rules changes, and what steps you can take before June 30 to maximise your investment opportunities this financial year, is imperative.

Three Powerful SuperAdvice Events

Join us at one of our InvestSMART Forum events during May in Sydney, Brisbane and Melbourne to hear everything you need to know from some of Australia's most recognised experts in superannuation, tax and investing.

SYDNEY: 1.00pm - 2.30pm, Thursday 11 May

ASX

20 Bridge Street

Sydney

BRISBANE: 2.00pm - 4.00pm Thursday 18 May

Queensland Law Society

179 Ann Street

Brisbane

MELBOURNE: 11.00am - 1.00pm Thursday 25 May

Telstra Conference Centre

1/242 Exhibition Street

Melbourne

Why should you attend them? Quite simply, amid all the media and political hype around the incoming changes, it's easy to get confused and miss the actual facts.

- Understand all the superannuation and pension rule changes, and how they may affect you;
- Learn what you can do before July 1 to significantly improve your overall retirement position;
- Find out about the low-cost, tax-effective investment products you can use to generate growth as well as a stable income stream before and in retirement; and
- Ask your specific questions to our panel of licensed financial advisors.

At our Sydney event, InvestSMART Group Chairman and renowned financial expert Paul Clitheroe will provide a special insight into his investment philosophies and strategies.

InvestSMART Group Managing Director, Ron Hodge, will discuss how the impending changes to concessional and non-concessional superannuation contributions are a very timely opportunity to exploit tax-effective investment products.

Ron will also showcase some free portfolio management tools that will help self-directed investors to identify their investment weaknesses and plug their asset gaps.

All events will include separate presentations by superannuation expert Bruce Brammall and tax expert Max Newnham, who will detail all the superannuation and pension rule changes, including the new contribution and account limits, and what steps you may need to take before June 30 to avoid a Capital Gains Tax headache next financial year.

Ian Irvine, Head of Customer and Business Development at ASX Limited, will also explain the products and services available on the ASX to Self-Managed Super Fund trustees.

Then, at the end of each event, Bruce and Max will be on centre stage to answer all your burning superannuation and tax questions.

With the countdown to June 30 on in earnest, you can't afford to miss our upcoming big events.

***Click here today** to register for either Sydney, Brisbane or Melbourne as seats are strictly limited.*

Consider the incentives of staying in the system before withdrawing your super, and a solid run-down on the new super contribution laws.

BY MAX NEWNHAM • EUREKA REPORT • 22 MARCH 2017

Tax with Max: Why you shouldn't cash in your super

Q. *I am 73, own my home, live very quietly, have approximately $450,000 in an SMSF, and am fed up with the endless government changes to the system. I am considering withdrawing all of my super and investing it personally and living off the proceeds. I receive a part pension, and since retirement, have almost doubled the amount I started with. Can you explain the implications of my withdrawing my super before I approach a financial adviser?*

A. There are three things that you must take into account before totally withdrawing from the superannuation system. The first of those will be the possible effect on your age pension. There are two tests that decide how much an age pension a person receives, being the assets test and the income test.

If you started receiving the account-based pension and age pension before 1 January 2015, you will be covered by the old rules with regard to the income test. Under the old rules the amount counted as income for the age pension was the net amount of account-based pension received. This net amount was determined by deducting from the actual account-based pension received the purchase price of that pension. This purchase price was calculated by dividing the value of your superannuation account at the time you started the super pension by your life expectancy at that time.

By withdrawing all of your superannuation, and investing the funds personally, the deeming rules that apply to financial assets could result in you receiving less age pension. If this was the case this would be one good reason for leaving your superannuation in place.

The next two things to consider are interlinked, being capital gains tax and income tax. Currently your superannuation fund pays no income tax on the income generated to fund your pension payments, including capital gains made on investments sold. In addition you pay no income tax on the account-based pension you receive.

If you withdrew your entire superannuation and invested the funds personally, the income earned, including capital gains made on the sale of investments, would be taxable in your hands.

No tax is payable on income earned up to $18,200, while income above this amount up to $37,000 is taxed at 19 per cent. The actual tax payable by an individual who is over 65 is reduced by the low income tax offset of $445, and the seniors pension tax offset for a single person of $2230. This means for a single person no tax is payable on income earned up to approximately $32,280.

Your taxable income would include the age pension you receive, any income earned on the investments, plus capital gains made on the disposal of any investments. Assuming that you are receiving $3000 a year in age pension, this would mean that you could have investment income and capital gains of approximately $29,280 and still not pay any tax.

This would mean that you would not pay any tax on the $450,000 that you currently have in your superannuation if the income earned was 6.5 per cent or less. However, if you sold an investment that resulted in a large capital gain, this could mean you would then be paying income tax.

I believe you should seek professional advice before taking any action. The adviser that you engage should not be employed by any large financial institution that limits their investment recommendations, and they should be able to provide you with a detailed analysis of what your best option will be after taking into account the three things mentioned above.

Q. *If I made a $25,000 personal contribution into my SMSF after 1 July 2017, will this contribution reduce my personal tax payable on investments? Also, to achieve a better tax outcome between the SMSF and my personal investment portfolio, just prior to the SMSF moving into pension phase, am I able to take the excess over $1.6 million and invest that in my personal name if that would give a better overall tax outcome?*

A. From 1 July 2017, the ability to make personal tax-deductible super contributions will become a lot easier. This will especially be the case for those people that are 65 and older, who meet the work test and receive superannuation support from their employer.

> **If you are 65 or older you must pass the 40-hour work test and then you can make a tax-deductible personal super contribution.**

Currently when someone receives, or is entitled to receive, superannuation contributions from an employer, their employment income must be less than 10 per cent of their total assessable income.

This means if a person 65 or older received $15,000 in employment income when meeting the work test, currently they would need to have total taxable income of more than $150,000 to make a tax-deductible personal super contribution.

This test will no longer apply from 1 July 2017, after which individuals can make personal tax-deductible super contributions up to the limit, no matter how much employment income they receive.

In your case, if you are under 65 you can make a personal tax-deductible super contribution to reduce the tax payable on your total assessable income, and not have to pass a work test. If you are 65 or older you must pass the 40-hour work test and then you can make a tax-deductible personal super contribution.

If there have been no other super contributions made on your behalf you could contribute and claim a tax deduction of up to $25,000. If you have received the benefit of employer super contributions, you can only make a tax-deductible super contribution that will bring you up to the $25,000 limit.

As to the tax saved from making personal tax-deductible contributions, this will depend on what your total assessable income is. If your total assessable income is less than $45,542 it would not make any sense in making a tax-deductible $25,000 contribution. This is because the tax deduction would bring your income below a level when no tax is paid at 19 per cent on some of the income, but the 15 per cent contributions tax would be payable.

Just before you commence receiving an account-based pension you have the option of withdrawing the excess over $1.6 million rather than leaving the excess in an accumulation account.

Withdrawing the excess, over the $1.6 million, and investing it personally may result in a better overall tax outcome. This will be the case where the income earned on investments outside of superannuation results in an income that you do not pay any income tax on.

This will however depend on how much income would be earned on the investments outside of superannuation, plus any capital gains that would be made in future years when investments are sold.

Careful calculations need to be done to work out, after taking into account the tax offsets available to you and the expected income rate on the investments outside of superannuation, at what point you would commence paying income tax at least at 19 per cent.

If you would be paying income tax on the income earned it does not make sense withdrawing all of the excess over the $1.6 million from superannuation, where the income earned would be taxed at only 15 per cent.

Rising capital expenditure by mining companies also points to better times for service providers.

BY ?? • EUREKA REPORT • 1 MARCH 2017

Miners get back on the spending cycle

First signs of a sea change in the capital expenditure (capex) plans of the mining industry have been detected, and that's good news for companies which sell services and equipment to the miners.

The capex drought was always going to break for the simple reason that mining is a depleting industry that must explore, discover and develop – or die.

Whether the recovery will be rapid, or a slow grind up, is a question just starting to be debated by analysts.

The smart money is on a gradual revival because it will require a change of mindset by management and the support of shareholders, who face an end to the generous share of mining company profits which have been flowing their way.

Managers will have to re-learn how to invest capital wisely rather than taking the easy option of cutting costs, and investors will have to learn to share a company's profits as capex demand increases, rather than continue to receive the lion's share of profits in the form of dividends.

It has been estimated that miners are currently spending almost as much on dividends as they are on capex, a significant change from the long-term average of capex consuming three-times more than dividends.

One recent study of how mining companies are spending their money was conducted by the British magazine, The Economist. Another was done by the US investment bank, Goldman Sachs. Both identified a shift in investment plans as optimism returns to mining after five grueling years of falling capex.

What The Economist looked at was the effect of higher commodity prices on the miners and their new-found interest in so-called "green metals" such as lithium and cobalt, which are used to make long-life electricity-storage batteries.

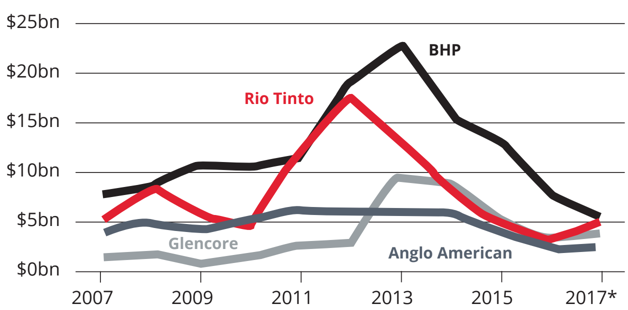
Copper, nickel, graphite and a number of other minerals are also consumed in emerging industries such as electric cars and battery storage.

But what's catching the eye of mining industry observers isn't the news around specific metals; it's the overall improvement in capex, which signals that miners are starting to reinvest in their businesses.

This change in attitude was succinctly described by *The Economist* in a heading on a graph "Out of a hole" (see Chat 1), which shows the bottoming of the capex cycle and the first signs of an uptick in expenditure plans by the world's four biggest mining companies.

Goldman Sachs went a lot further in explaining what's happening by noting that a "bottom" had been found in the capex cycle and that expenditure on essential mine development was accelerating.

Chart 1: Out of a hole, capital expenditure ($bn)



*Forecast
Source: The Economist via Bloomberg; company reports

"Strong commodity prices have driven a rise in sector cash flow that is funnelling its way to rising capex spend," Goldman Sachs wrote last week in a research note.

"In the past six months, we have raised our forecasts of 2017 capex spend by $US5 billion (up 8 per cent) and now expect 2017 to show the first year-on-year spend increase since 2012.

"As we forecast commodity prices to stay strong and balance sheets to keep improving, we expect this rise in sector capex to continue."

Goldman Sachs took a global view in identifying potential winners among the mining-sector service providers including one Australian listed company, Seven Group, on a six-member list which features three US companies and two Europeans.

> **The improving outlook for mining equipment and service providers can be seen in the strong share price recoveries by stocks such as Ausdrill.**

Seven's plum asset is the WesTrac business, which sells and services Caterpillar earthmoving equipment. The provider of that equipment, Caterpillar of the US, is also on the list with the four others being Timken and Kennametal of the US and Weir Group and FLSmidth from Europe.

The improving outlook for mining equipment and service providers can be seen in the strong share price recoveries by stocks such as Ausdrill, a drilling operator, which is up from a low last year of 41c to recent sales at $1.37; Monadelphous, an engineering contractor, up from $6.50 to $12.86; and NRW, a mine services provider, up from 16c to 77c.

Goldman Sachs said the first phase of the capex recovery would focus on rectifying a "capex liability" created by companies cutting back on essential mine-site works during the lean years, including reduced maintenance and exploration. Some miners have also focussed on extracting as much ore as possible and having less waste rock, a process controlled by the "strip ratio".

Without removing waste rock, especially in open cut mines, the life of a project can be shortened because it becomes too difficult (and expensive) to reach deep ore.

Stripping back waste rock to expose the ore has, according to Goldman Sachs, fallen to a 20-year low, indicating a deferral of stripping activity.

"Normalisation of strip ratios, maintenance spend and exploration will likely consume the early share of increasing capex spend. We see this as positive for explosive (manufacturers), contractors and service companies."

Goldman Sachs said the need to find growth would drive long-term spending, and while shareholders have been receiving a bigger-than-average share of profits in their dividends that was a trend that could not continue.

The bank's analysis of capex spending showed that over the past three years investment in new project development (greenfield projects) had fallen by 80 per cent.

Fresh investment in greenfield projects was expected over the next two years, providing a second wave of opportunity for service and equipment providers.

"The major driver of the increasing capex spend has been the improvement of miners' balance sheets," Goldman Sachs said.

"Industry debt levels have shrunk by around $US50 billion since 2016 (down 22 per cent) and net debt is now below one-times EBITDA (earnings before interest, tax, depreciation and amortisation) whereas it was two-times at the start of 2016."

Iron ore and coal were the big winners in the last upturn in the capex cycle. This time around, a period Goldman Sachs has named "Mining Capex Cycle 111" will see a focus on gold and other precious metals as well as the base metals such as copper where some mines are reaching cyclical lows in terms of ore reserves which need to be replaced.

For investors unfamiliar with mining, what's happening is a perfectly natural part of the discovery and development process essential to maintain mineral production or, as a Leigh Clifford, former chief executive of Rio Tinto used to say: "they don't call us cyclical for nothing".

Three copper explorers to watch as worldwide demand for the metal heats up.

BY TIM TREADGOLD • EUREKA REPORT • 23 MARCH 2017

Minefield: Copper gets ready for its close-up

*As with every edition of Minefield, this article is not providing investment advice. For all of Eureka Report's stock recommendations, **click here** and then click on each of the three tabs: ASX Large Caps, ASX Mid Caps, and ASX Small Caps.*

Key Point

- ***The outlook is encouraging for copper companies with a grip on substantial, but undeveloped, resources.***

Knowing which way the copper price will move has become more difficult, with supply disruption at three of the world's biggest mines offset by doubts about the strength of the US economy.

The net result of those conflicting forces is the copper price remaining roughly where it was **last week** when I took a look at events on the supply side of the most important base metal.

It's a different story at the tail end of the copper market where several explorers have been showing the benefits of discovery and potential development news.

But before examining three small copper players, there are two other forces at work which help make the case for copper being the metal to watch most closely over the next few years.

The first is the return of the capital investment cycle which the investment bank, Goldman Sachs, dealt with in a recent report and *Eureka Report* **covered last week**, which explained that a five-year capital investment drought will break because mining is a depleting industry that must discover and develop.

The second force at work is that copper – despite the hyperventilation over the new generation of so-called energy or battery metals (lithium, graphite, cobalt and others) – will be the biggest single beneficiary of the move into electric cars and rooftop photovoltaic electricity generation.

Copper is everywhere, from the electronics in the device on which you're reading this, to the wiring in your house and the pipes in your bathroom. With demand growing reasonably strongly, and 9 per cent of global supply currently disrupted, the outlook is encouraging, even for small explorers. This includes:

Peel Mining (PEX)

Peel, a specialist in the copper-rich country around Cobar in western New South Wales, last week reported fresh encouragement from drilling at a prospect called Wirlong. This could lead to the discovery of a deposit similar to those that once made the region a globally important source of copper.

Assays are yet to be received but investors with an eye for interesting drilling reports were quick to lift Peel's share price to a 12-month high of 22c, up 6c (37.5 per cent) on its 16c low earlier this month. At its latest price of 20c, Peel remains a minnow, with a market capitalisation of $30 million.

More work is required at Wirlong and other prospects being explored by Peel, but the latest news, when combined with earlier results from other encouraging discoveries such as Mallee Bull, indicate that Peel is getting closer to something substantial.

Interestingly, the small Australian explorer has been joined in its search for copper and other metals in the Cobar region by a Japanese Government natural resources authority, the Japan, Oil, Gas and Metals National Corporation (JOGMEC).

The Japanese agency has already earned a 40 per cent interest in Peel's Cobar Superbasin Project (CSP) and could earn another 10 per cent by providing an extra $3 million in funding.

The interest of Japan in Cobar is a pointer to the worldwide search for new copper mines, and while Peel's work has a long way to go, it has turned up some encouraging assays from earlier drilling, including 4.9 metres at 4.3 per cent copper, plus useful grades of silver from a depth of 402m.

The latest drilling, from which assays are due to be received around mid-April, intersected a 16 metre-thick zone from a depth of 749m comprising veins of chalcopyrite, one of the most common copper-bearing minerals.

> **Copper is everywhere, from the electronics in the device on which you're reading this, to the wiring in your house and the pipes in your bathroom.**

The depth of the intersection could be a problem for Peel, but that's been the nature of Cobar copper orebodies that have been known to extend beyond a depth of 2000m.

MOD Resources (MOD)

Like Peel, MOD has made what could be a significant copper strike; but it could hardly be more different in its geological and geographic setting.

MOD's find is in the Kalahari Copper Belt of the southern African country, Botswana, where it made a discovery named T3 around this time last year.

The latest news from a remarkably remote location is that more copper appears to lie beneath T3 with the latest drilling returning a 72.6m section assaying 1.5 per cent copper and 27g/t of silver.

The thickness is key to the latest drill results and the fact that it appears to be part of a flat-lying rock sequence beneath Kalahari sand cover.

MOD's managing director, Julian Hanna, described the first assays from the previously unknown zone as "simply outstanding".

"This new intersection exceeds the width and grade of the overlying T3 resource which is several times wider than most copper deposits in the Kalahari Copper Belt," Hanna said.

More work is required to determine exactly what MOD and its British partner (London-listed Metal Tiger with a 30 per cent stake) have discovered at T3, but the latest drill results have led to an acceleration of work with four drilling rigs on site.

Investors are warming to the MOD story, marching the stock steadily higher from a low of 3.3c early last month to a 12-month high this week of 9c. Recent sales at 8.2c value the stock at $133 million.

Venturex Resources (VXR)

There's not a lot new about Venturex and its base metal project in the north of Western Australia, but it is a company which can be judged by the quality of its major shareholders, including gold-sector favorite, Northern Star Resources.

Venturex controls both the Sulphur Springs copper and zinc deposit south-east of Port Hedland and the historic Whim Creek copper and zinc deposit 115km west of Port Hedland.

Studies into how either project might be profitably mined have been underway for some time with recent interest driven largely by the higher prices for copper and zinc rather than any recent news flow.

In theory, Venturex controls one of Australia's largest undeveloped zinc and copper inventories with what's called a Value Engineering Study demonstrating a pathway to production.

Complementing the metal in the ground is an experienced board of directors and the continued interest of Northern Star, which paid $11 million for a 15 per cent stake in Venturex five years ago. That holding has since been diluted to 13.6 per cent, with Hong Kong-based Regent Pacific topping the share register with a 22.5 per cent interest.

Venturex is a high-risk proposition with much work to do, including a clean-up of its bloated share structure which currently has 2.6 billion shares outstanding, a factor in the stock trading at 0.8 of a cent, an ultra-low price – but 150 per cent better than the 0.3c of this time last year.

As interest in copper and zinc continues to grow, any company with its foot on a substantial, but undeveloped resource, will attract increased attention.

Jobs and wages are growing very slowly, and the data underlying this is alarming.

BY CALLAM PICKERING • EUREKA REPORT • 22 MARCH 2017

Jobs and wage growth: the bottom line

Unemployment is rising, but other figures released by the Australian Bureau of Statistics (ABS) last week were perhaps even more disappointing, to say the least.

The unemployment rate is now at its highest level since January last year. The market anticipated an increase in employment of 16,000 people but the actual result was a decline of 6,400 people. The unemployment rate was expected to ease to 5.7 per cent but instead rose to 5.9 per cent.

Key Point

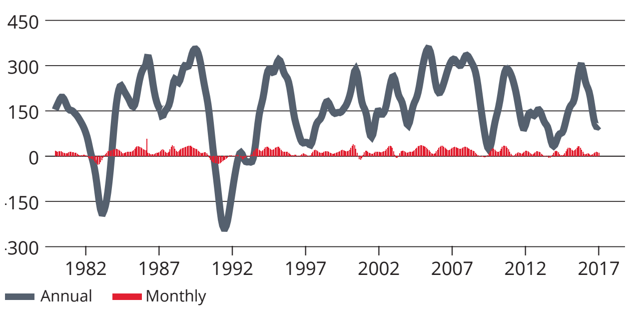
- ***Australians are working less and wage growth has dropped off drastically over the past four years. This is a clear threat to the Australian economy.***

It is worth reminding *Eureka Report* readers that there is a high level of monthly volatility in the seasonally-adjusted employment estimates. Employment regularly goes from one extreme to another and it can be difficult to separate the signal from the noise. Admittedly, that doesn't stop market participants from trading aggressively when the data is released.

Separating signal from noise

For that very reason, I tend to place greater emphasis on trend measures of employment and the unemployment rate. It helps to identify meaningful change amid the monthly volatility.

Chart 1: Australian change in employment (Number of people; trend)



Source: ABS; via CP Economics

The trend estimates suggest around 11,000 to 12,000 jobs are added per month. Australia has created around 100,000 jobs over the past year, which is a poor result by historical standards.

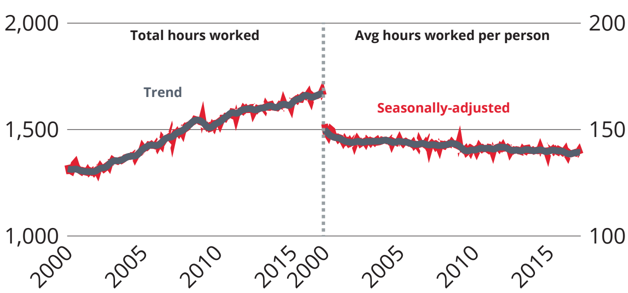
Unfortunately, employing 100,000 extra people isn't as valuable to the economy as it used to be. The increasing casualisation of the Australian workforce means that those jobs are providing a relatively minor boost to economic activity since aggregate hours worked is rising at such a slow pace.

A more important measure of the economy

A more important, but often overlooked, measure of the health of the Australian economy is aggregate hours worked. It is almost completely ignored by traders and traditional media but it is arguably more important than either employment growth or the unemployment rate.

Aggregate hours worked has increased by 0.9 per cent over the past 12 months. Hours worked per person is unchanged over that period but the broader trend suggests this measure will continue to decline.

Chart 2: Australia monthly hours worked (across all jobs)



Source: ABS; via CP Economics

Employment growth these days is dominated by part-time roles. Part-time employment has accounted for 70 per cent of employment growth over the past five years, compared with a historical share of 32 per cent.

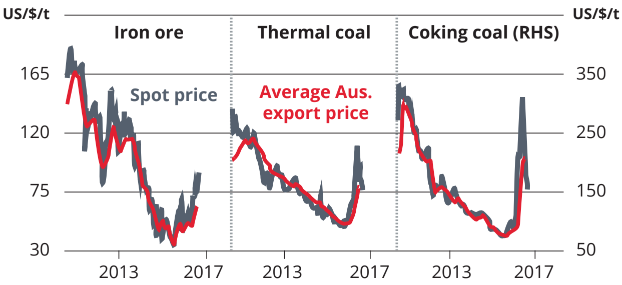
Australia isn't adding as many jobs as in the past, and isn't creating the high-quality, high-income roles that were considered normal prior to the GFC.

A stronger corporate sector, with both earnings and profitability at a historical high level, will hopefully trigger an

> **The recent wage debate has centred on the decision by the Fair Work Commission to cut penalty rates received by workers in the hospitality and retail sectors.**

improvement in employment and labour market conditions. Employment typically lags measures of economic activity, so normally you will see an improvement in growth or corporate profitability, and then months later you begin to see an improvement in labour market conditions.

Chart 3: Bulk commodity prices (free on board basis)



*Iron ore fines, Newcastle thermal coal and premium hard coking coal
Source: ABS; Bloomberg; IHS; RBA

The counter-argument is that commodity prices, particularly with regards to thermal and coking coal, are already in retreat with spot prices now below the average export price received by Australian producers. If this continues, the recent improvement in corporate profitability will prove temporary and won't lead to a material improvement in labour market conditions.

The weight of wages

The recent wage debate has centred on the decision by the Fair Work Commission to cut penalty rates received by workers in the hospitality and retail sectors. It was a good outcome for small business owners but potentially damaging for investors in larger corporations.

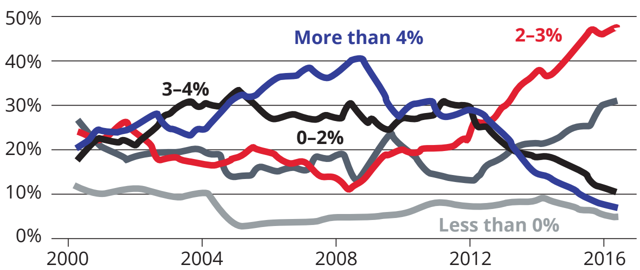
Shifting money from poorer households to higher-income households is typically viewed as a negative for economic growth. Poorer households have a higher propensity to consume, that is they spend a higher share of their income, whereas higher-income households are likely to save more.

So a dollar redistributed from a low-income individual to a higher-income individual will normally reduce household spending.

The counter-point is that reducing penalty rates will allow small businesses to hire more staff and that will help lower-income earners who want to find a job or work more hours. The evidence on that point is somewhat mixed.

The timing of the cuts is also unfortunate given the ongoing weakness in private sector wage growth. Employees are receiving less frequent wage increases, and when they do, the increase is a lot less than was the case in the past.

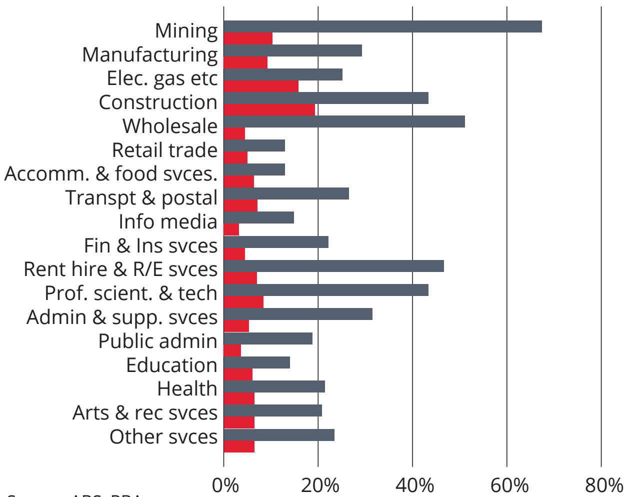
Chart 4: Wage changes of different sizes (share of jobs that experience a wage change*)



* Smoothed using a four-quarter trailing average
Source: ABS; RBA

This month, the Reserve Bank of Australia (RBA) published an **interesting research paper** on wage dynamics, which does a great job at showing how much wage growth has diminished over the past four years.

Chart 5: Share of wage rises larger than 4% (by industry)



Source: ABS, RBA

Chart 4 shows the share of jobs receiving a specific change in wages. Around 40 per cent of people experienced annual wage growth exceeding 4 per cent back in 2009; today less

> **“It was a good outcome for small business owners but potentially damaging for investors in larger corporations.**

than 10 per cent receive wage growth of that magnitude.

Almost 50 per cent of people received wage growth of between 2 and 3 per cent during 2016; a further 30 per cent received wage growth of between 0 and 2 per cent.

Wage growth has declined significantly across every industry, as shown in Chart 4. This chart compares the share of wage rises above 4 per cent in 2012 and 2016.

Wage growth has declined significantly across every industry, as shown in Chart 5. This chart compares the share of wage rises above 4 per cent in 2012 and 2016.

The longer this persists, the more it becomes ingrained in worker expectations. Ongoing weakness in wage growth is a clear threat to the economy; household spending accounts for 57 per cent of economic activity.

Banks and financial institutions should apply the five Cs of credit to their decision-making, and investors should do the same.

BY PHILIP BAYLEY • EUREKA REPORT • 1 MARCH 2017

Why investors should adopt the five Cs of credit

Many years ago, as a young banker, I was introduced to the five Cs of credit (although at the time, it was the four Cs, which later grew to become five). It was a time in which credit ratings were virtually unheard of in Australia, and there was no corporate bond market to speak of.

Key Point

- ***In an era of information overload, the five Cs of credit, a simple framework, should be at the front and centre of the toolkit of those investing in the bond market today.***

Yes, there was a market for Commonwealth and state government bonds, but both institutional and retail investors gave little thought to credit risk. The bonds were considered by default 'risk free' and institutional bond investors were focused exclusively on duration risk, which was a big consideration in the late 70s and early 80s.

In the absence of credit ratings and credit scoring, the five Cs of credit were used by bankers and other lenders, as a decision-making framework for assessing the creditworthiness of a borrower and the suitability of a loan for the purpose for which it was being sought. These days, it is not clear that whether the five Cs are consciously applied to lending decisions made by banks and institutional investors, and it is likely that the framework is not used at all, by retail investors.

But it is worth reviewing the five Cs of credit because the fundamentals of lending have not changed. No other ways have been invented for lenders to lose money.

What are the five Cs of credit?

- Character
- Capacity
- Capital
- Collateral
- Conditions

Applying the five Cs of credit to corporate bonds

Let's consider the application of the five Cs in the context of corporate bond markets: wholesale and retail.

In the wholesale market, institutional investors require bond issuers to have an investment grade credit rating. This requirement provides a measure of creditworthiness from which the required rate of return on the bonds is inevitably determined.

The implication of this is that institutional investors do not conduct their own independent assessment of creditworthiness. Yet, rating agencies consistently state that the rating assigned to an issuer is merely an opinion, and that investors should make their own independent assessment of creditworthiness.

Since the GFC, financial regulators have been singing this tune, long and loud.

In a small subsector of the wholesale market, sub-investment grade companies issue unrated bonds to middle-market investors such as family offices, charities, churches, hospitals, universities, private schools, endowment funds, and so-called sophisticated investors. The rates of return offered on these bonds are determined by the sponsoring brokers and offered to investors on a take it, or leave it, basis.

Given that it is rare for one of these bond issues to fail, it can only be concluded that many investors do not undertake any form of independent credit risk assessment. Either that or the sponsoring brokers are very good at assessing the creditworthiness of the issuers.

The situation is little different in the retail corporate bond market. New issues are presented on a take or leave it basis, and undertaking their own independent credit risk assessment would not be feasible for most investors in this market.

Investors place significant reliance on the name of the bond issuer: do they know the issuer; is it a familiar and trusted name? And, once more, the return for risk offered by the sponsoring broker(s) is taken at face value.

> **In the absence of credit ratings and credit scoring, the five Cs of credit were used by bankers and other lenders, as a decision-making framework for assessing the creditworthiness of a borrower and the suitability of a loan for the purpose for which it was being sought.**

Interestingly, name recognition (knowledge of the issuer) is the first and most important of the five Cs. In this respect, retail investors have a major advantage in assessing credit risk, over investors in the subsection of the corporate bond market that is the domain of small, unrated corporate bond issuers.

When considering the first of the five Cs, character, a lender needs to know whether the borrower is trustworthy. Will they do what they say they are going to do, in all respects related to the loan?

Will interest payments be made on time and the principal repaid at the maturity of the loan? Will the money borrowed be used for the stated purpose?

When considering a corporate bond issue, investors should be concerned about corporate governance. Corporate governance determines the behaviour of the company and its officers.

Is the borrower a good corporate citizen? Are there instances where the company has not done the right thing by investors or stakeholders, even though it may have been acting legally?

Has the company been caught up in any scandals? Is it involved in any activities or industries that you, as an investor, would prefer not to be exposed to?

Too often, it seems that character is an afterthought, with more attention paid to the remaining four Cs.

Capacity is about the financial position of the borrower and the borrower's ability to generate sufficient future cash flow to service the loan.

From the financial statements of the borrower, a good assessment can be made of a company's solvency and liquidity. Its profit and loss and cash flow statements will show whether the company is consistently profitable and generates sufficient cash flow to service the bonds to be issued, along with all its existing borrowings.

Capital relates to the purpose of the borrowing. What are the proceeds of the bond issue going to be used for and how much of its own money is the company going to contribute to the project?

This is about having skin in the game. It provides a wonderful incentive to the company to ensure that its project is successful, and that the project will not be abandoned when difficulties are encountered.

However, with bond issues there is often no specific project to which the funds raised will be applied: 'general corporate purposes' is frequently the stated use.

This simply means the money raised from the sale of the bonds will be used to fund day-to-day activities. In this case, investors need to be satisfied the company itself is sufficiently well-capitalised and is not too reliant on debt to fund its balance sheet.

Collateral provides lenders with a second source of repayment, should a borrower fail to meet its obligations and default on the loan. Collateral is the security offered by the borrower – a charge over land and buildings, plant and equipment, guarantees from a creditworthy third party – which can be sold or called on by lenders to recover their capital and any outstanding interest, when the borrower defaults.

Typically however, few bond issues come with security, and if they do, the security will be shared equally with other lenders, including the company's bankers. Most bond issues are unsecured and can rank behind secured lenders, such as the company's bankers.

Investors need to be satisfied with the adequacy of the security offered or be comfortable with being unsecured or ranking behind other creditors to the company.

Conditions is the fifth C, a later addition to the first four. This refers to the terms and conditions attached to the loan that are either imposed by lenders on the borrower, or in the case of bond issues, are offered by the issuer to investors.

Banks will often impose conditions on corporate loans, particularly where the borrowing is being undertaken for a specific purpose. But more generally, there will be conditions such as maintaining a minimum level of capitalisation, a maximum level of gearing, and a minimum level of interest cover and debt serviceability.

> **The five Cs set out what a lender/investor needs to know. Consciously applying the framework can only deliver a better outcome through greater decision-making efficiency.**

The sale and purchase of significant assets may also be restricted, if not prohibited.

Conditions are less common in bond issues. Financial undertakings in relation to gearing, interest cover and debt serviceability may be offered but often there will be no significant conditions at all.

Investors need to be aware of the conditions offered and decide whether they are satisfactory or not. Where no conditions are offered, investors must be comfortable that they are providing the company with funds that it can use in any way it pleases.

This is where, combined with an absence of collateral, character or corporate governance becomes critical. There must be trust that the borrower will be responsible and honour its obligations to bond holders. This trust should not be misplaced.

The five Cs are fundamental to credit risk assessment

Introductory banking courses still cover the five Cs of credit. The approach to credit risk assessment typically appears early in the course and then the course content moves on to discuss 'more exciting' topics.

Banking students and practitioners may not think much more about the five Cs thereafter. Focus will switch to assessing the macro-economic environment, industry risk, earnings and cash flow projections and calculating relevant financial ratios.

But why is this information being gathered; where does it sit in the decision-making process?

A similar treatment may be given to the five Cs in finance and investment courses. And of course retail investors may never hear of them, unless they are particularly diligent about managing their own investment portfolios, and do not simply rely on the recommendations of advisors.

Yet, upon reflection, it is clear that the five Cs set out the framework for everything that a lender or investor needs to consciously consider before making a decision. In an era of information overload, application of the framework allows information to be categorised into what is useful for decision-making and what is irrelevant.

In the past, information asymmetry has posed a hurdle for lenders and investors to overcome, and considerable work may have been required to help them do so. And perhaps because of the amount of work involved, the reason for gathering the information was not forgotten, and unnecessary effort was not expended.

Today, with 100-page plus prospectuses, and not to mention the font of all knowledge, the internet, only the most obscure borrowers can remain a mystery to potential lenders. But there may be too much information.

The five Cs set out what a lender/investor needs to know. Consciously applying the framework can only deliver a better outcome through greater decision-making efficiency.

The team behind BKI is using URB to buy into direct property holdings as well as stocks linked to urban renewal.

BY MITCHELL SNEDDON • EUREKA REPORT • 24 MARCH 2017

URB: An LIC with an urban renewal focus

In late 2016 Tom Millner, Will Culbert and Washington H. Soul Pattinson (SOL) established Contact Asset Management. In doing so, management of BKI Investment Company (BKI) was externalised to Contact.

Milner and Culbert said Contact would give them the opportunity to launch compelling investment opportunities which would benefit BKI shareholders, through broader coverage of companies and a growing analyst team.

Jump forward six months in time and Milner, Culbert and SOL's are **introducing URB Investments Limited** (URB) to the market.

URB will provide an interesting mix of direct property holdings managed by SOL's property company Pitt Street Real Estate (PSRE) and ASX-listed companies that fall into the thematic of urban renewal. When talking with Milner and Culbert last year, they promised something different and they didn't disappoint.

If you are familiar with the LIC BKI, you would be familiar with its stance on fees. BKI and the board have a strong stance on having the lowest management expense ratio (MER) possible.

The saying, "the thicker the carpet the thinner the dividend" has featured in its recent reports. Contact is continuing this through URB. It's not quite the 0.16 per cent MER of BKI but it is a very respectable management fee of 0.5 per cent per annum. There is also a performance fee of 15 per cent above a benchmark of 8 per cent.

Low management fees aside we also like the diversification this LIC will bring. The mix between direct property (currently three seed properties all is Sydney) and ASX companies will diversify investors away from the usual ASX 20 names.

Income-focused investors, which make up a good proportion of LIC investors, will be satisfied eventually with the yield generated by the portfolio. Milner and Culbert have narrowed down a universe of approximately 80 stocks to invest in, the bulk of which will produce income for the portfolio. On top of this you have the rental income from the properties.

Two of the three currently have tenants providing income for the LIC. The third property, currently a field which will be developed into a distribution centre, is not generating any income yet. URB has stated it intends to have a pay-out ratio of 50–70 per cent.

If there is one thing that concerns us here, it is Contact Asset Management's manpower. Yes, the team is using the experience of SOL's real estate investment group but it still leaves Milner and Culbert to sift through a universe of 80 urban renewal themed stocks on top of managing the close to $1 billion BKI portfolio. It's a lot to be across.

Speaking with Milner and Culbert when they initially set up Contact Asset Management, they did say they would look to bring on another analyst/s. Given the workload in getting a new LIC off the ground, plus running an existing portfolio and communication with its shareholders, another set of hands cannot come quick enough.

Saying this, BKI, Milner and Culbert have been assisted by a strong board, and URB will be no different with Warwick Negus as chairman. Negus has most recently been named the chairman of the proposed merger between fund managers Pengana Capital and Hunter Hall International.

Additional concerns we have is the properties' sensitivity to interest rates, and the yield in the short term won't be as high as it can be due to one-third of the property portfolio needing development.

In short there aren't too many LIC initial public offerings we do like. Too many these days come out of fund managers who aren't offering anything different from their unlisted managed funds and the hefty fees that come with it.

But URB is ticking a number boxes for us that many LIC IPOs have not. It comes from a team with investment experience dating back to 1903.

There is a track record of actively lowering fees and continually growing dividends, a pleasing combination for investors. On top of this they are giving us something genuinely different too and this will have us watching on to see how it develops.

As with investments in BKI and SOL's, we would suggest this suits a patient investor with a long-term view.

Watch our recent video discussing URB Investments Limited with Tom Millner and Will Culbert.

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