EMOHRUO

Financial Services Pty Ltd™

"Your partners on the road to financial success"

Superannuation and Investment Guide

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Understanding superannuation

Purpose of superannuation

Funding your retirement

Superannuation is a way of savings for retirement. Your employer is obligated to pay a percentage of your earnings (currently 9.5%) into your superannuation account, and your superannuation fund invests the money on your behalf until you reach retirement.

Superannuation provides a number of tax concessions not available to you if you are investing outside of the superannuation environment. These include a flat tax rate of 15% on earnings and the tax-deductible contributions which can reduce the amount of personal income tax you pay. The trade-off for these concessions is that you are legally unable to access the funds until you reach preservation age (age 60 for anyone born after 1 July 1964) and have retired. While there are special circumstances where you are able to gain access to superannuation prior to reaching preservation age, these are limited to circumstances which include compassionate grounds, severe financial hardship, terminal medical condition and other incapacity events.

Considerations for your superannuation

Consolidation/Rollover

Consolidating your super means rolling over (moving) all your super into one account. It makes your super easier to manage, and saves on fees. The fund you choose to consolidate or rollover to may not be an existing fund you have in place. It is important you choose a superannuation fund which is right for you.

There are several reasons why people consider rolling over superannuation. These reasons can include:

- Consolidation of superannuation platforms to reduce the personal administration burden,
- Access to a wider range of investment options and fund managers,
- More appropriate insurance facilities and/or cheaper premiums,
- Online access and reporting capabilities,
- Enhanced functionality such as access to direct investments,

There are also several reasons to retain existing superannuation platforms. These include:

- Entry and exit costs of rolling over,
- Further insurance underwriting may be required,
- Insurance benefits may be lost and unable to be re-established.

It is important you have a detailed understanding of the potential lost benefits or other significant consequences which may arise as a result of rolling over from a superannuation fund.

Types of Contribution

There are two basic types of super contributions you can make: concessional and non-concessional. Concessional contributions are made from before-tax income and are taxed at 15% in your super fund. Non-concessional contributions are made from after-tax income and are not taxed in your super fund.

Common examples of concessional contributions include:

- compulsory employer superannuation guarantee contributions,
- salary sacrifice arrangements, and
- any personal super contributions that you claim as a tax deduction.

Common examples of non-concessional contributions include:

- voluntary additional payments made from your take-home pay,
- any made on behalf of your spouse (married or de facto),
- a government co-contribution, and
- the Low Income Super Tax Offset (LISTO).

There are annual caps (limits) on the amount of concessional and non-concessional contributions you can make. If you exceed these limits, you'll be liable to pay extra tax.

The concessional contributions cap is currently $25,000 per year (unless you are eligible to use the carry-forward rule), and the non-concessional cap is $100,000 (unless you are eligible to use the bring-forward rule and as long as your balance is below $1.6million at the end of the previous financial year).

Concessional contribution carry-forward rule

From 1 July 2018 if you have a total superannuation balance of less than $500,000 on 30 June of the previous financial year, you may be entitled to contribute more than the general concessional contributions cap and make additional concessional contributions for any unused amounts.

Non-concessional contribution bring-forward rule

If you are under 65, you may be able to make non-concessional contributions of up to three times the annual non-concessional contributions cap in a single year. If eligible, when you make contributions greater than the annual cap, you automatically gain access to future year caps. This is known as the bring forward arrangement.

From 1 July 2017, the non-concessional contributions cap amount that you can bring forward, and whether you have a two or three year bring forward period, depends on your total super balance. Your total super balance is determined at the end of 30 June of the previous financial year in which the contributions that triggered the bring forward, were made.

Impact of fees

It is important to understand that given the long term nature of investing in superannuation, small differences in both investment performance and fees can have a substantial impact on your long term returns. For example, total annual fees of 2% of your account balance rather than 1% could reduce your final return by up to 20% over a 30 year period (e.g. reduce it from $100,000 to $80,000).

It is important you prioritise your needs to determine if you are willing to pay more in product fees to gain the specific features you desire, and whether or not those additional features justify higher fees.

Managed fund investments

Managed funds pool the money of many individual investors and invest across a range of asset classes. Managed funds can be managed by a trustee or professional fund manager. When you invest in managed funds, you are allocated a number of units in the fund. Each unit represents an equal portion of the fund's value.

A managed fund allows you to invest in a range of assets, such as Australian and international property as well as shares, fixed interest and cash. This allows you to invest in different asset classes through one vehicle.

Managed funds can provide access to assets that can assist with portfolio diversification which you may not otherwise be able to invest in such as international shares or commercial properties.

Selecting your investments

Your goals

It's important to consider when you will need money when selecting your investments. The following table shows some common goals and their possible timeframes as well as examples of the type of assets that would generally be appropriate for those timeframes.

Short term goals (0-5 years)	Long term goals (5+ years)
— Save up a cash buffer — Upgrade my car	— Pay for my children's house deposit — Upgrade my home
Generally suitable assets for short term goals	**Generally suitable assets for long term goals**

— Defensive assets
    — Cash
    — Fixed interest
	— Growth assets
	    — Property and Infrastructure
	    — Equities

This table does not suggest that you should put all your money in these assets. In reality, people have a mixture of short and long term goals and hence their portfolios contain a mixture of assets, which we refer to as the asset allocation. In some cases, a portfolio may be completely oriented to growth assets (e.g. a portfolio consisting only of shares) or defensive (e.g. a portfolio consisting only of term deposits).

Types of assets

Generally, assets which provide the potential for greater returns are also riskier. This means that in the short term you could suffer significant losses that compromise your short term goals. However, given a long enough timeframe these assets should conform to their projected returns. We call these types of assets growth assets.

In contrast, assets like fixed interest (e.g. a 2-year term deposit) provide a generally stable level of return albeit minimal if any potential for greater returns. We call these assets defensive assets.

Your risk profile

Risk profiling refers to the assessment undertaken to gauge the amount of financial risk an individual is willing to take with their strategy and investments. We worked together to understand your expectations and how you feel about investment risk to determine your identified risk profile.

Sometimes your identified risk profile is not consistent with your goals and their timeframes. In this case we can either consider changes to your goals or we can agree to implement an investment strategy which does not align to your risk profile. If you agree to invest in line with a risk profile that has a **higher** proportion invested in growth assets, you need to be aware of the following:

- You would be invested in a higher proportion of growth assets than you initially indicated you would be comfortable with.
- Your potential for higher long term returns will increase and so will the potential that you will suffer more significant short term losses.
- The minimum time that you should be comfortable not withdrawing that investment capital will be longer.
- In the event of a serious market downturn, your losses would likely be more significant than if you were invested in line with your identified risk profile.

While investing in line with a risk profile that has a **lower** proportion invested in growth assets does not carry a higher investment risk, you would be limiting your potential for higher returns.

The current market environment of low yields, falling expected investment returns and increase in volatility has seen the industry re-evaluating client return expectations. The return objectives for your risk profiles have been reduced to reflect the changed market outlook over the next 5 to 7 years. These changes were made to ensure that we are reasonably confident that your investment will meet the stated return objectives without adding additional investment risk that you may not be comfortable with.

Your investment strategy

Your investment strategy is the approach or plan that we use to place you in the best decision to achieve your particular goals. It is the foundation of how your portfolio is invested and managed to achieve your objectives.

The following components are taken into account in determining your investment strategy:

- Your goals and the timeframes in which you want to achieve them
- Your risk profile; your tolerance and expectations about investment risk
- The types and nature of investments that are appropriate for you
- The level of ongoing management your portfolio would require and the suitability of that for you
- Whether to exclude an amount of cash for your short term goals

A sound investment strategy will provide you with the following:

- An appropriate mix of growth and defensive assets for your risk profile, goals and timeframes
- Diversification across asset classes, industry sectors and markets
- A cost-effective portfolio in terms of implementation and ongoing management

Managing and reviewing your investments

Your goals and attitudes to risk can change over time and it is important to make sure that your investment strategy remains appropriate for you. It is also important to review your investments regularly to ensure your portfolio is diversified and you hold a portfolio which aligns to your investment strategy.

Risks involved with investing in growth assets

Historically, over the longer term returns from growth assets (e.g. shares) have been higher than defensive assets (e.g. cash). While growth assets can provide investment returns well above their defensive counterparts, you need to be aware of the associated risks of investing in them.

To illustrate the difference, a portfolio invested 100% in growth assets could in nearly all cases expect returns year-to-year to be between -27.50% and 41.40%. A portfolio invested 100% in defensive assets could in nearly all cases expect returns year-to-year to be between 0% and 6.90%. You will notice that these ranges are vastly different, growth assets are much more volatile than defensive assets.

The amount of income you derive from growth assets (e.g. dividends) may vary and sometimes stop altogether.

You can reduce but not eliminate the risks of investing in growth assets by investing over a long period and diversifying your portfolio appropriately.

Liquidity risk

In some cases, investments can become illiquid, which means that withdrawals will not be allowed unless the responsible entity of the investment makes a withdrawal offer. The responsible entity is not obliged to make this offer. Where withdrawal requests exceed the amount available for release from the fund, the amount released may be distributed proportionally to those who have made requests.

Other risks

A comprehensive resource for investors, or those considering investing, to understand more about investment risk is Investing Between The Flags – A Practical Guide To Investing created by ASIC, which can be read before you proceed with any advice. It is available from https://www.moneysmart.gov.au or we can provide you with a copy.

Risk Profiling

Your attitude to investment risk is a crucial factor in determining an appropriate investment strategy to meet your needs. Investing is considered risky because there is uncertainty about how the investment will perform over the short and long term. Different types of investments experience different levels of volatility. Negative returns can happen at any time, so during periods of poor performance, remaining invested for the minimum investment term will provide an opportunity for your portfolio to recover.

Here are the main approaches to investing, otherwise known as investment risk profiles.

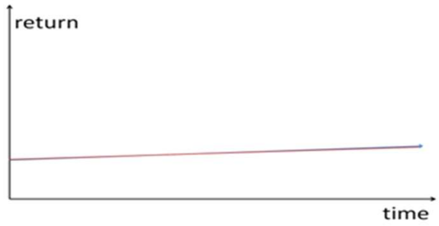
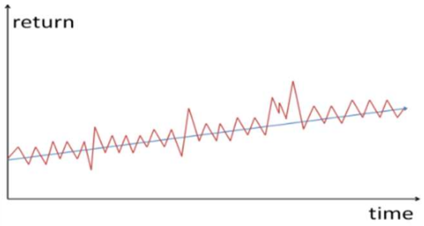
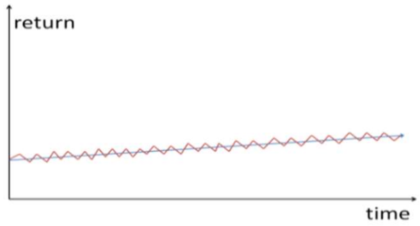
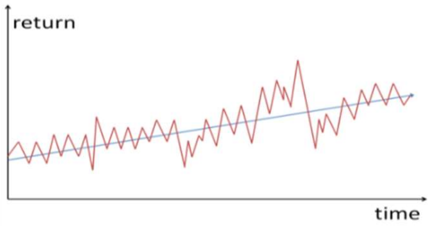
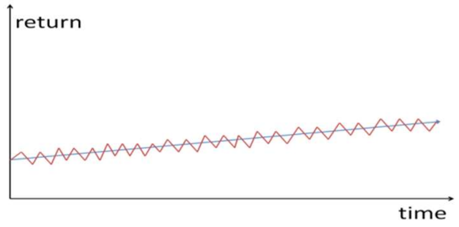
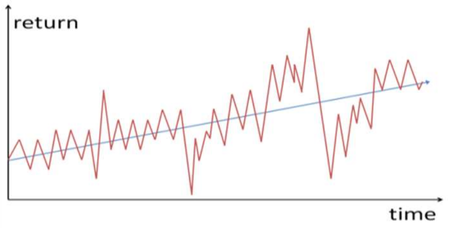
Risk profile	Description
0% growth	Protection of capital or certainty of income is your only objective. You do not wish to attain higher returns if your capital is at risk.
30% Growth	You are a defensive investor. You are willing to consider less risky assets; mainly cash only and some fixed interest investments. You are prepared to accept lower returns to protect the value of your capital. The recommended minimum investment term is 2 years.
50% Growth	You are an investor seeking a combination of income and growth from your investment portfolio. Generally, you are willing to chase medium to long-term goals while accepting the risk of short to medium-term negative returns. Your investment mix is likely to include an equal mix of the defensive assets and growth assets such as equities and property. The recommended minimum investment term is 4 years.
70% Growth	You are a growth investor. You are willing to consider assets with higher volatility in the short-term (such as equities and property) to achieve capital growth over the medium to longer term. Your investment mix will comprise a greater share of growth assets. The recommended minimum investment term is 5 years.
85% Growth	You are a growth investor. Prepared to accept higher volatility in the short to medium term, your primary concern is to accumulate growth assets over the long term. Your investment mix will spread across a wide variety of asset sectors but will mainly consist of more aggressive investments. The minimum investment term is 7 years.
100% Growth	Your primary objective is capital growth. You are an aggressive growth investor and are prepared to compromise your portfolio balance to pursue greater long-term returns. You are willing to accept higher levels of risk. Fluctuation in capital is acceptable in the short-medium term for the greater potential for wealth accumulation. With the exception of a minimal level of cash for liquidity purposes, your investment mix will only consist of growth assets such as international and domestic equities. The minimum investment term is 7 years.

Growth profiles						
Investment profile	**0%**	**30%**	**50%**	**70%**	**85%**	**100%**
Portfolio make up						
Cash	100%	27%	12%	7%	6%	0%
Australian fixed interest	0%	26%	23%	14%	5%	0%
International fixed interest	0%	17%	15%	9%	4%	0%
Property / Global Infrastructure	0%	5%	7%	10%	13%	15%
Australian shares	0%	9%	15%	22%	26%	32%
International shares	0%	12%	22%	31%	40%	47%
Other – Alternatives	0%	4%	6%	7%	6%	6%
Return information [1]						
Projection return per annum (historical)	1.60%	3.31%	4.34%	5.36%	6.14%	6.94%
Extreme return range	0% to 6.9%	-9.3% to 16.0%	-13.9% to 22.6%	-19.0% to 29.7%	-23.3% to 35.6%	-27.5% to 41.4%
Normal return range	0% to 3.4%	-0.9% to 7.5%	-1.7% to 10.4%	-2.8% to 13.5%	-3.7% to 16.0%	-4.5% to 18.4%
Probability of a positive return (over one year)	100%	78.39%	76.22%	74.51%	73.44%	72.72%
Minimum suggested investment timeframe	N/A	3 years	5 years	7 years	8.5 years	10 years
Investment objective over investment timeframe	RBA Cash Rate	CPI + 0.25%	CPI + 1.00%	CPI + 1.75%	CPI + 2.50%	CPI + 3.25%
Probability of meeting investment objective [2]	100%^	62.28%	64.91%	66.48%	65.49%	64.86%
Investor characteristics [3]						
Suitable for short term goals	✓	✓	✓			
Suitable for long term goals				✓	✓	✓
Willing to incur loss of capital value	Not willing	Less willing	Willing	Willing	Willing	Willing
Portfolio diversification	Very limited, invested entirely in defensive assets	Limited	Well-diversified	Some diversification	Limited	Very limited, invested entirely in growth assets
Capital security vs Capital growth	Security	Security	Balanced	Growth	Growth	Growth

[1] This information was obtained from AMP Capital and considered to be reliable, however we do not guarantee it is accurate or complete. The information in this publication is current as at June 2018 and may change over time. Past performance is not a reliable indicator of future performance.

[2] The probability of meeting the objective in the 0% growth profile of RBA cash rate assumes investment in a very liquid asset such as Call Deposit 11 AM account and assumes no fees.

[3] This table contains information that is general in nature. It does not take into account the objectives, financial situation or needs of any particular person. You need to consider you financial situation and needs before making any decisions based on this information.

Return over time graphs	
0% growth profile	**70% growth profile**
	
30% growth profile	**85% growth profile**
	
50% growth profile	**100% growth profile**
	

Emohruo Financial Services Investment Philosophy

At Emohruo Financial Services, we have a strong focus and commitment to education, which is highlighted by the university and specialist qualifications of our team. With this in mind, we are taking an academic approach to investment theory based on the research and theories of some of the best minds in the field. Further, our investment philosophy is modelled on the work of three Noble Prize winners of economics – Kenneth French, Robert Merton and Eugene Fama.

In line with academic research, we believe in the following guiding principles to investment management:

1. Due to capitalism, investors are owed an expected return based on their exposure to the market.

2. Markets are efficient and fairly priced, factoring in both current and future events, therefore, arbitrage opportunities are limited. By default, active fund management unless carefully and skilfully implemented, can result in high costs due to constant trading, resulting in no substantial financial benefit to the client due to market efficiencies. Active management, unless effectively done by quality managers has shown to underperform the market over time.

3. There is a relationship between risk and return and incorporating greater diversification returns can be improved. The market prices in 5 key risk factors that affect returns:

    a. Equities
        i. Exposure to the broad equity market (large caps)
        ii. Exposure to small cap stocks
        iii. Exposure to value stocks.
    b. Fixed Income
        i. Term risk
        ii. Default risk

4. Focus on strategic asset allocation, maximising the above risk factors, ensures a more successful long-term experience, than active stock selection.

5. Utilise investments that delivery cost efficient investment strategies in line with the above guiding principles. Reweighting the portfolio on an annual basis, reduces significant value fluctuations due to asset classes moving beyond set parameters. With reduced trading and greater stock volume in the portfolio, costs are kept low, resulting in greater benefits to clients.

Product features

There are a number of different features which are included within superannuation and investment products. It is important to identify the features that are important to you so you can make an informed decision regarding the most appropriate superannuation fund for your retirement savings.

Features common across most superannuation/pension products	
Binding Death Benefit Nomination	A legally binding nomination that allows you to advise the superannuation trustee who is to receive your superannuation benefit in the event of your death. In order for a nomination to be binding, it must be 'valid'. Binding nominations are required to be renewed every 3 years. It is important to note, while a binding nomination will provide a level of certainty regarding your wishes being followed, it does not provide a guarantee from being challenged in a court of law.
Access to transition to retirement product	A transition to retirement product refers to an account-based pension which is able to be established once you have reached preservation age but prior to you meeting a retirement condition of release. This allows you to supplement your cash flow with funds from superannuation, allowing for semi-retirement.
Reversionary Beneficiary (account-based pension accounts only)	A reversionary beneficiary applies to account-based pension accounts and allows you to nominate your spouse to receive your ongoing pension payments in the event of your death. This compares with a lump sum payment being made to your spouse which may impact other arrangements such as Centrelink entitlements.
Features common across most superannuation/pension and investment products	
Access to single manager, or default life cycle investment options	Single manager investment options refer to investment options where one fund manager is responsible for all of the underlying investments within the fund. A default life cycle investment option is an investment option which is targeted towards your age rather than tailored based on your individual investment preferences. These types of investment options are the default investment option most superannuation funds will invest your funds within, if you do not make a specific investment choice.
Access to index investment options	As per single manager investment options, these options are managed by one fund manager and aim to track a specific index, rather than actively manage the underlying investments of the fund. These are generally less expensive when compared to alternatives.
Features available on more comprehensive super/pension and investment products	
Non-Lapsing Binding Death Benefit Nomination	A non-lapsing binding nomination is a binding death benefit nomination which is not required to be renewed every 3 years.
Internally Geared Investment Options	Internally geared investment options allow the fund manager to borrow within the fund. Using borrowed funds to increase the size of the investment being made can magnify the gains and losses. These types of investment options are generally considered to be more risky due to the higher potential for increased volatility in the value of the investment.
Ability to pay for advice fees from the product	Having a product where you are able to pay for advice fees allows you to minimise the impact of advice fees on your personal cash flow. It is important to note that having fees paid from your product will have an impact on the value of your investment over the long term.
Access to more complex investment options (e.g. multi-manager or hedged options)	Some investment options in the market can be significantly more complex when compared to a standard single manager or index style investment option. A multi-manager investment option is an investment which uses specialised investment managers to manage different underlying asset classes within the fund. This provides you with increased diversification and access to investment managers who specialise in the particular asset class without the need to invest your funds across multiple investment options.

	Hedged investment options can use strategies to generate positive returns in both rising and falling markets. Further to this, they may also be able to reduce portfolio risk and volatility.
Access to a range of investment managers	Some superannuation funds are limited with the amount of investment managers they offer, with some funds only offering investments managed by one investment manager. Other superannuation funds in the market open their investment menu significantly to allow a number of specialist managers to be used which can provide increased choice and potential for a more tailored approach to investing.
Access to social or ethically responsible investments	Socially or ethically responsible investments look to invest in companies which meet a pre-determined criteria of business practices which are considered to be socially or ethically responsible. For example, some of these funds may choose to not invest in tobacco companies as tobacco is known to cause a range of health issues.
Access to direct equities	Some superannuation funds offer you the ability to invest in direct equities which are listed on the Australian Stock Exchange. A select few funds offer the ability to invest in International Equities. These options are usually restricted to the top 200 companies and result in associated broking fees in the same manner as if you were to invest in these equities personally.
Access to capital protected investments	In addition to pure cash based investments, Capital protected investments can include investments where the capital growth is locked in each year allowing you to be protected against falls in the market. These investments are provided at an additional cost and work differently depending upon the product provider.
Access to income protected investments	Income protected investments allow you to protect a portion of the income you receive from your portfolio, providing you with certainty on your income returns. These investments are provided at an additional cost and work differently depending upon the product provider.
Auto-rebalance facility	An auto-rebalance facility allows for your investment portfolio to be automatically reweighted to a pre-determined investment allocation. This can allow your portfolio to remain continually invested in line with your chosen risk profile and investment strategy.
Features specific to Self-Managed Superannuation Funds	
Ability to invest in Direct Property	One of the most attractive aspects of a Self-Managed Super fund is the ability to invest in direct residential or commercial property. This provides you with increased investment options and allows you to borrow funds to assist in the purchase of the investment. There are a number of restrictions which apply to these types of investments and it is important you consider the overall appropriateness of a Self-Managed Super fund before making the decision to use this type of structure purely for this ability.
Direct Operational Control	This means you are the Trustee of your own superannuation fund, either directly or indirectly through a Corporate Trustee. While this allows for increased control over your superannuation savings, it does come with all the responsibilities and obligations which apply to a large superannuation trustee.

Ensuring you have an appropriate superannuation product is fundamental to ensuring your Retirement planning is being managed in the most effective way. We will work with you to incorporate the most appropriate product into your Financial Plan.

If you have any questions regarding the information outlined in this document, please discuss with your Financial Planner.