



3 November 2017

Housing Policy Unit Manager
Social Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: HousingConsultation@treasury.gov.au

Dear Madam/Sir,

SMSF ASSOCIATION SUBMISSION ON NATIONAL HOUSING FINANCE AND INVESTMENT CORPORATION

The SMSF Association welcomes the opportunity to make a submission on the National Housing Finance and Investment Corporation Consultation Paper. We have focused our submission on section four of the report regarding the affordable housing bond aggregator and in particular issue five on bond issuance.

The SMSF Association believes that funding affordable housing is an essential public social investment task and that SMSFs could play a significant role in contributing funding to creating a greater supply of affordable housing.

Currently the superannuation sector plays an important role in funding infrastructure investment in Australia. Of the \$2.3 trillion superannuation pool, large APRA-regulated super funds had \$77 billion invested in Australian and overseas infrastructure at June 2017. Of this figure, two superannuation sectors, industry funds and public sector funds, dominate with \$65.2 billion (85 per cent).

However, the SMSF sector is largely precluded from investing in and funding infrastructure and other types of social investment. The SMSF Association believes that SMSFs can have a substantial impact by providing capital funding for affordable housing and there is likely to be demand by SMSF investors if appropriate products, such as affordable housing bonds, are developed. We believe the affordable housing bond aggregator is an appropriate opportunity for SMSF capital to be utilised with positive social outcomes and therefore its issuance should be expanded to the retail bonds market.

Bond issuance – Could affordable housing bond issuance be expanded to the offshore market or the retail bonds market?

The SMSF Association believes that allowing affordable housing bond aggregator to issue retail bonds that can be purchased by SMSFs would provide a new avenue for SMSF investment that could help fund Australia's future social investment needs and also assist SMSFs in achieving stable income to fund income streams during retirement.



We believe that SMSF investors would be attracted to investing their capital in affordable housing bonds due to the following factors:

- SMSF investors are traditionally “sticky investors” that undertake investments with long-term investment time frames in mind. This makes SMSFs suitable for investing in affordable housing through the bond aggregator.
- Infrastructure and social impact investments act as important investment classes that offer a risk-return point different to common SMSF investments.
- Younger demographics entering the SMSF sector have a higher propensity to invest with social responsibility in mind and will be attracted to funding affordable housing.
- SMSFs in retirement phase have a demand for longer term investments to fund stable retirement income.
- SMSF trustees are looking to manage longevity risk by accessing long term investment options with low volatility, moderate yield relative to inflation and moderate capital growth. The affordable housing bond aggregator meets this profile

We believe that this potential demand for affordable housing bonds by SMSFs, lends weight to offering bonds on a retail basis. With SMSFs predicted to grow to asset holdings of \$2.8 trillion by 2035¹, and currently around 26% of SMSF assets held in low-risk assets (e.g. cash and fixed interest)², we expect the SMSF low risk capital pool to grow to approximately \$730 billion by 2035. This large pool of low-risk preferred capital would be a viable and stable source of infrastructure and affordable housing project funding in years to come.

SMSFs have been limited in investing directly in infrastructure and large scale social investment projects due to the high dollar entry threshold for these investments and the illiquid nature of the required investment. The current opportunity of the establishment of the affordable housing bond aggregator has the chance to avoid these constraints and tap a previously unused source of funding.

SMSF capital needs aggregation to fund large social investment projects and the SMSF Association believes that the affordable housing bond aggregator would facilitate this aggregation of SMSF capital under its current model if it offered retail bonds. This would be of benefit for community housing providers and help create the flow of capital to make the affordable housing bond aggregator a viable and credible financier.

The SMSF Association also sees that there is a multitude of options available for delivering community housing bonds on a retail basis. These may be through the development of a secondary market that would allow SMSFs to manage liquidity risks, or through brokers and financial advisor distribution channels which have worked well for the retail market with other investments (for example, the ASX’s mFunds managed investment platform is accessible by retail investors through licensed advisors and brokers). The offering of a simple low-cost bond especially through financial advisors would have significant benefits for trustees entering retirement.

¹ Deloitte Actuaries and Consultants, “Dynamics of the Australian Superannuation System – The next 20 years: 2015-2035”, 2015

² Australian Taxation Office, SMSF Quarterly Statistics – June 2017



Ernst and Young's 'Establishment of an Australian affordable housing bond aggregator' Report proposed that a low to moderate complexity structure is preferred for the bond aggregator in order to reduce cost and complexity and increase flexibility. We believe this is appropriate and further illustrates that the creation of community housing bonds will be relatively similar to products that retail and SMSF investors already invest in.

Furthermore, the report stated '*Wholesale bonds issued into the Australian public market are favourable compared to retail bonds, private bonds and/or international bond markets due to lesser disclosure requirements and lower cost*'. Nevertheless, the Association believes the benefits that the retail bond market can offer, especially for affordable housing projects, closing the funding gap and for SMSF trustees' retirement plans outweigh the costs involved in offering bonds to this market.

If you have any questions about our submission please do not hesitate in contacting us.

Yours sincerely,

A handwritten signature in black ink that reads 'John L. Maroney'.

John Maroney
Chief Executive Officer
SMSF Association

ABOUT THE SMSF ASSOCIATION

The SMSF Association is the peak professional body representing SMSF sector which is comprised of over 1.1 million SMSF members who have \$696 billion of funds under management and a diverse range of financial professionals servicing SMSFs. The SMSF Association continues to build integrity through professional and education standards for advisors and education standards for trustees. The SMSF Association consists of professional members, principally accountants, auditors, lawyers, financial planners and other professionals such as tax professionals and actuaries. Additionally, the SMSF Association represents SMSF trustee members and provides them access to independent education materials to assist them in the running of their SMSF.