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14

Why renewable energy is good news for emerging markets

Keeping it in the family – the secret to transferring wealth successfully

Australians and the art of giving

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Welcome to the Autumn 2023 edition of Now & Next

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Keeping it in the family – the secret to transferring wealth successfully

Ensuring that future generations continue to benefit from family wealth calls for careful and early planning. What can you do to make sure you leave a lasting legacy?

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If you've been following the Australian Securities Exchange (ASX), you may have noticed growing investor interest in companies specialising in the extraction of so-called 'green metals'. These are metals such as nickel, lithium, copper, manganese and cobalt which all play a key role in the manufacture of renewable energy systems. Lithium, for instance, is a vital component in lithium-ion batteries which power many of the world's electric vehicles as well as being used in domestic battery storage systems.

As countries move rapidly to decarbonise their economies, demand for these green metals is expected to grow strongly. A recent study by KU Leuven University estimated that the EU will need 35 times more lithium and 330% more cobalt than it currently uses if it's to become climate neutral by 2050.[1]

Australia is blessed with large deposits of these in-demand metals – hence investor interest in the ASX. However, Australia's not alone in being well-placed to supply these markets. Other countries, especially many classified as emerging markets, also hold major deposits and are expected to benefit from the shift to renewable energy.

What is an emerging market?

An emerging market is a country whose economy is in the process of transitioning to a developed economy. It may feature many of the characteristics of a developed economy such as a well-established banking system and financial markets but is perhaps less well integrated into the global economy and more politically unstable. Returns for investors in these markets can be higher than in developed economies but also carry greater risk.

The International Monetary Fund (IMF) currently classifies 20 countries as emerging markets, including the economic powerhouses China and India.[2] The Morgan Stanley Capital Investment (MSCI) Emerging Market Index includes 24 countries.[3]

Which countries have green metals?

While Australia is currently the biggest producer of lithium, Chile has the largest reserves, about five times more than Australia. The so-called 'Lithium Triangle' comprising Argentina, Bolivia and Chile accounts for about 60% of the world's known lithium reserves as well as many other sought-after metals.

Another developing economy, the Democratic Republic of Congo (DRC), has about 70% of the world's cobalt reserves.[4] Africa also has untapped reserves of platinum, manganese, bauxite and chromium.

Other countries with sizable ore deposits include Kazakhstan (chromium), South Africa (platinum) and New Caledonia (nickel).[5]

What role can emerging markets play in an investment portfolio?

As mentioned, emerging markets offer the potential for higher returns on investment than developed economies but also greater risk. Investments in these markets can be more volatile due to policitial instability and currency fluctuations. However, as world demand grows for resources to build renewable energy systems, these markets are likley to attract higher levels of capital investment.

For investors who have a goal of growing their capital over long time frames, an exposure to emerging markets may boost growth potential and increase diversity.

Speak with us to find out more

If you're interested in exploring the investment potential of emerging markets, we can advise how emerging markets could fit with your investment goals and the best ways to gain exposure.

1 Eurometaux, Metals for clean energy: Pathways to solving Europe's raw materials challenge, April 2022, accessed 16 February 2023.

2 International Monetary Fund, Miles to go, Rupa Duttagupta and Ceyla Pazarbasioglu, June 2021, accessed 16 February 2023.

3 MSCI, MSCI Emerging Markets Index, January 2023, accessed 16 February 2023.

4 Can the Democratic Republic of the Congo's mineral resources provide a pathway to peace? United Nations Environment Programme, 20 September 2022, accessed 16 February 2023.

5 The Growing Role of Minerals and Metals for a Low Carbon Future, World Bank, June 2017, accessed 16 February 2023.

Keeping it in the family – the secret to transferring wealth successfully

Ensuring that future generations continue to benefit from family wealth calls for careful and early planning. What can you do to make sure you leave a lasting legacy?

Many Australians prioritise providing for their families when it comes to managing personal wealth. So it's only natural to want to do everything in your power to ensure your family and future generations are well looked after. That can be a challenge even when you're around to guide them, but even more so when you're not.

This is an important issue in Australia given the inter-generational shift in wealth that's gathering pace. A report by the Productivity Commission in 2021 estimated that more than $120 billion was transferred between Australians in the form of gifts and inheritances in 2018 alone.[6] By 2050, the annual wealth transfer is predicted to be four times bigger.

The three generation paradigm

Managing this wealth transfer will be a major concern for many families over the next two decades. The mismatch between the goals, aspirations and even financial abilities from one generation to another can lead to assets being squandered. The old saying about 'three generations from shirtsleeves to shirtsleeves' encapsulates the potential for family wealth to go from accumulation to evaporation in just three generations.

So how do you ensure that your family is one of the few that manages to preserve its assets for the benefit of future generations?

Make a plan for the whole family

Planning and communication are the key elements for families that successfully manage wealth continuation. In particular, planning needs to start early. This can be as simple as thinking about who in your family you'd like to provide for and in what form. Families can change quite dramatically over time because of marriage, divorce and new additions. That's why in any planning for future generations, it's worth considering how your family may look in the future. And for the same reasons, it's important to keep your plan up-to-date.

Whatever you decide, make sure you communicate your intentions to your family so everybody understands in advance what will happen. Consider their aspirations, needs, competence and interest in managing family assets.

6 Productivity Commission, 'Wealth transfers and their economic effect', December 2021, accessed 20 February 2023

Options to transfer your wealth

Several instruments can help you transfer wealth. These include having an up-to-date will, trust funds, superannuation and gifts. Each has its own tax implications and varies in terms of how much control you have over future beneficiaries.

A **will** is the most widely used means of making known how you want people to benefit from your legacy. A properly drafted will should make explicit the beneficiaries and your intentions. However, depending on how your assets are organised it might not be the most effective means of organising your estate. For instance, if you own a business, succession planning for that business may be more important than what you leave in your personal estate.

Superannuation is a popular and tax-effective way to save and preserve an income for the future. There may also be life insurance cover attached to the super fund which will pay out to your beneficiaries in the event of your death. To ensure that your superannuation is paid to the beneficiaries you choose, a non-lapsing binding death benefit nomination can provide you with certainty on who will receive your superannuation when you die. If you're in pension phase, then you have the option to have your super pension paid to a beneficiary that you nominate. They will need to meet eligibility requirements at the time of your death.

Trust funds typically offer taxation benefits and allow you to stipulate how your wealth is used in future and who controls it. Trust fund assets are not owned by any single individual but are held in trust, and any benefits from the trust must go to your nominated beneficiaries. Assets held within a trust don't form part of your estate so they are less likely to be contested in a will dispute.

Gifting is another popular method of transferring wealth to future generations, not least because you can do it while you are alive and when the next generation is most in need of a helping hand. The well-known 'Bank of Mum and Dad' is an example of gifting to help younger family members get on the property ladder. It may involve more than just handing over the money, however. For instance, you need to be clear whether it really is a gift or a loan, or if the gift needs to be considered a pre-payment of entitlements in your will.

How we can help

Estate planning is a complex task that requires specialised skills to ensure the right outcomes. If you would like to learn more about how to best benefit future generations, talk to us. In conjunction with legal and other advisers, we can guide you on how to plan your estate, considering your overall financial goals.

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Australians and the art of giving

Australians are generous when it comes to donating to charities and philanthropic causes but, as a wealthy nation, we can always do better. We examine the latest trends for supporting worthwhile ventures and the different ways you can become involved.

The devastating series of bushfires, floods and the COVID-19 pandemic over the past few years have demonstrated that, when others are in trouble, Australians help those in need. In 2020, according to the latest Australian Charities Report, Australians donated about $12.7 billion to worthwhile causes, an increase of 8% on the previous year.[7]

Much of this giving is in the form of personal donations and fund raising for registered charities. However, there is also a lot of important work being done by individuals through their own philanthropic enterprises and charitable bequests.

7 Australian Charities and Not-for-profits Commission, 'Australian Charities Report – 8th edition', June 2022, accessed 16 February 2023.

> While Australians are known for their generosity in times of crisis, as a country we still lag many developed nations for philanthropic donations.

Structured giving

Philanthropy Australia, the peak body representing philanthropic organisations in Australia, describes this type of fundraising as 'structured giving'. Typically it involves planned financial instruments such as trusts and foundations designed to support specific causes and charities.

The two most commonly used vehicles are **private ancillary funds** (PAFs) and **public foundation sub funds**. PAFs are charitable trusts set up by individuals, families or associations to donate money or other assets to charities that can receive tax deductible donations. Every year, PAFs must distribute at least 5% of the value of their net assets.

More than 2,000 PAFs have been set up since 2001 with combined assets of $7.6 billion. In 2019-20, they distributed nearly $521 million to charity.[8]

Public foundation sub-funds allow people to set up a fund with a tax-deductible donation which then feeds into a larger public fund which supports various charities. Each year the sub-fund must donate a certain percentage of its assets to the main fund. Sub-funds are easier to set up and operate but, unlike a PAF, you can't appoint your own trustees to manage the fund – overall control remains with the public fund.

In 2018 there were nearly 2,000 sub funds in Australia with total assets of $1.06 billion and annual donations of $123 million. The average size of a sub-fund is around $500,000 compared to $4.4 million for a PAF.[9]

Charitable trusts are another long-established form of philanthropic giving, typically set-up as the result of a bequest. To be able to register as a charitable trust – and so receive tax concessions from the Australian Taxation Office – a trust must be set to be not-for-profit. It must have only "charitable purposes that are for the public benefit" and not be an individual, a political party or a government entity.

8 Philanthropy Australia, 'Giving Trends and Opportunities', October 2022, accessed 16 February 2023.

9 Philanthropy Australia, 'A Blueprint to Grow Structured Giving', April 2021, accessed 16 February 2023.

10 Philanthropy Australia, 'Better Philanthropy Telescope Report 2022', December 2022.

11 Philanthropy Australia, 'Giving Trends and Opportunities', October 2022.

Top causes in 2023

So what sort of charitable causes are being supported through philanthropic organisations? A report by Philanthropy Australia last year highlighted five key areas for philanthropists in 2023.[10] These are, in no particular order:

- addressing the need for **more affordable housing** to tackle homelessness,
- taking action to confront the challenges of **climate change**,
- helping to alleviate the stress on **vulnerable and disadvantaged people** in an economic downturn,
- working with **First Nations people** to deliver better outcomes to their communities, and
- advocating for systemic change to address the **underlying causes of poverty** and inequality.

The report also highlighted a number of challenges facing the sector in 2023, not least a possible economic downturn with high inflation and rising interest rates.

How Australia's giving compares with other countries

While Australians are known for their generosity in times of crisis, as a country we still lag many developed nations for philanthropic donations. For instance, on the international benchmark of total giving as a percentage of GDP, Australia scores 0.81% compared with 1.84% for New Zealand and 2.1% for the US. Overall, on the Global Philanthropy Environment Index, we rank 19th, behind New Zealand on 16th.[11]

Australia's new Labor federal government came into office in 2022 with the goal of boosting charitable donations and increasing the percentage of taxpayers who make donations. It has proposed a number of new measures including establishing standardised fundraising laws across all states so charities don't have to waste time having to comply with individual State and Territory regulations.

The Productivity Commission has also been asked to undertake a review of the philanthropy sector with the goal of boosting donations to charities and doubling philanthropic giving by 2030.

How we can help

If you'd like to learn more about how to structure your giving or about charitable donations in general, talk to us. We can advise you on how to best plan your giving, taking into account your overall financial goals.

The numbers

Average weekly earnings are

$1,807.70

at November 2022.[12]

Australia's population grew by

1.6%

in the 12 months to 30 September 2022, to **26,124,814**.[13]

Consumer Price Index rose

7.8%

over the twelve months to December 2022.[14]

Gross Domestic Product increased

0.5%

in the December 2022 quarter.[15]

Unemployment rate is

3.5%

at February 2023.[16]

12 Australian Bureau of Statistics
13 Australian Bureau of Statistics
14 Australian Bureau of Statistics
15 Australian Bureau of Statistics
16 Australian Bureau of Statistics

CONTACT YOUR COUNT ADVISER AT:

WARNECKE & Co.
Chartered Accountants
Business Advisors
Financial Planners

Tyson Ayris
Financial Planner

Warnecke & Co
209 Hutt Street, Adelaide SA 5000
P: (08) 8223 3272
E: fp@warnecke-co.com.au