AFR
Companies&Markets
www.afr.com | Monday 20 February 2017

Right now, Don Hamson likes the resources sector. PHOTO: MICHELE MOSSOP

Don Hamson: fundie protecting pensioners

Monday fundie

Prioritising income is key for Hamson.

Philip Baker

Don Hamson isn't planning to retire or go on the pension any time soon. But when it comes to managing money, it's a different story.

By focusing on tax, franking credits and income, the fund manager at Plato Investment Management puts himself in the shoes of retail investors who need to live off what money they have earned over their lifetime.

"We're one of the few funds that can say we manage for pensioners. We know they value franking credits so we make sure they are getting valued correctly. It's all about getting that extra income," says Hamson.

Ironically, that can mean spending as much time making sure they avoid the stocks that end up disappointing investors when it comes to dividends, as sticking with the ones that do deliver.

There are about 90 to 100 stocks in the portfolio that includes Commonwealth Bank, ANZ and Westpac, but Macquarie Group, BHP Billiton and Stockland also make the list of their top 10 holdings.

"We're overweight the CBA but underweight the bank sector, which

Continued p20

From page 13

Hamson protecting pensioners' incomes

might seem odd given we focus so much on income," says Hamson.

The Plato fund also aims to beat the market, so at times it can include stocks like CSL and even gold stocks such as Northern Star that help generate those outright returns.

But predominantly thinking what life is like for a pensioner means looking at all the different income strategies that can help deliver a decent cash flow to pay the bills.

It includes making sure those franking credits are maximised but also means keeping an eye out for any takeovers that sometimes get a special dividend as a "sweetener".

Hamson is also on the hunt for any deals like the one announced by Caltex this time last year. Back then, Caltex paid a record final dividend of 70¢ fully franked and did a $270 million off-market buyback. That was worth another 20 per cent for a tax-exempt investor, says Hamson.

Right now, Hamson sees some of the best opportunities for income coming from the resources sector that includes stocks such as Rio Tinto, BHP and Fortescue Metals.

It's been a few tough years for the sector but now commodity prices are high again, and with all the cost cutting that's been done, the companies are in better shape and it's unlikely they will invest in capital expenditure again.

That means the cash is likely to end up with shareholders.

Hamson's not too fussed about the prospect of higher interest rates. They are still low by historical standards and probably won't rise that far, so investors will still need to generate a decent income when they're retired.

A fair chunk of Hamson's time at Plato is spent looking at what's happening with changes to superannuation and the pension rules.

Due to a raft of new super rules and asset tests that come into play from

From July 1, Australians will be working longer to maintain their retirement income.

July 1, Australians will be working longer to maintain their retirement income levels.

The new taper rate assumes pensioner assets earn 7.8 per cent, but Hamson reckons that's way too high given that most have their capital in term deposits or fixed income. Pensioners who want to maintain their standard of living need to think more about strategies that prioritise income.

Hamson says they also need to take advantage of their standing as "tax-free" investors (those who don't pay capital gains tax), and that's one reason he actively trades the Plato portfolio.

"A million dollars isn't what it used to be and I'm not saying put all your money into equities, but over the past five years we have delivered a 9 per cent income return each year. That means $90,000 more to live on from that 1 million than what you would have got with it sitting in a term deposit earning 1 or 2 per cent," he says.

Indeed, since it started to concentrate on this income strategy five years ago the Plato Fund has generated, after fees, 6.5 per cent income, which becomes 9 per cent when franking credits are included. That's more than the 4.5 per cent income (6.1 per cent once franking credits are used) that the benchmark S&P200 index has returned over the same period.

The Plato Fund has also generated, after fees, a total return of 14 per cent per annum over the past five years, better then the 12.3 per cent per annum return generated by the S&P ASX 200 accumulation index over the same time frame.

Hamson's parents were farmers in Queensland who started buying shares in the 1960s, when there was no formal superannuation policy. But they were regular savers, and Hamson learnt the art of making sure you invested when there was some money around.

"Being on the land, you had no control over the weather and the like so you had to put something away when you had it," he says.

A culture of saving and investing was part of his growing up, which is perhaps one reason he became an accountant after leaving school.