



Sharan Burrow

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Funds must gain control of pensions worldwide

Asset owners don't have the confidence to impose their views on advisors, said trustee of the £32 billion Universities Superannuation Scheme, Howard Jacobs in a heated plenary with general secretary of the International Trade Union Confederation, Sharan Burrow, and PRI chair, Wolfgang Engshuber.

"For me the issue is asset owners are at the top of the chain and can decide how the investment process should be organised," he said. "But in the detail it is an abysmally stacked deck, and the skewed incentives mean it's very

difficult. Unless you have very strong minded trustees, which can be backed up with knowledge, you will have short-term incentives played back to you."

Engshuber said shifting the focus of asset managers from the short- to long-term is one way to influence behaviour. How short-termism affects the financial system is an issue the PRI is exploring.

Jacobs said USS has moved away from short-term bonus plans to five-year bonus plans. Similarly chief executive of Cbus, David Atkin, said his fund had recently explored the short- and long-term dichotomy in the



The challenge is for the industry to end its own short-termism



exploration of its investment beliefs.

"Our job is to achieve CPI plus 3.5 per cent, and that should be our benchmark," he said in reference to the industry's propensity for peer comparison.

Burrow's opinion is that the industry underestimates its capacity to influence the future and the creation of a sustainable economy.

"The challenge is for the industry to end its own short-termism. The union movement wants to see patient capital and the opportunity for a green economy," she said. ●

Partnerships are our strength





Invest with impact not just for returns, says South Africa's GEPF

Returns should not be the sole driver of investment decisions because pension funds should consider the social, environmental and economic impact their capital can have, a senior official at Africa's largest pension fund told CMSF 2012.

John Oliphant, head of actuarial and investments at South Africa's \$130 billion Government Employees Pension Fund (GEPF), says the fund considers high-impact investments that develop the domestic economy as being in the long-term interests of its members.

GEPF are effectively a third of the country's [South Africa's] GDP so what we think is that if the country does not do well then the fund will not do well because we own a slice of the economy," Oliphant said.

"Anything that you care to see when you arrive in South Africa – whether you arrive at the airport, whether you drive on the roads, whether you buy food in the shops, or whether you stay in a hotel – we own a piece of it. So it is critical that the manner in which we invest somehow benefits the economy and benefits the GEPF."

The fund is restricted by law from investing more than 9 per cent of its portfolio outside of Africa.

The defined benefit scheme is fully funded and Oliphant says that GEPF does not aim to "shoot the lights out" but uses a liability-driven investment (LDI) strategy to match its ongoing commitments.

Typically these liabilities are 30 years in duration. Oliphant says that

These education loans provided a diversifying benefit as well as a long-term benefit

real assets, particularly economic infrastructure, fits the twin goals of matching long-term liabilities as well as making a positive impact on the South African economy.

"The fund started in 1996. It was about 70 per cent funded, and in 2008 it was 102 per cent funded – not because there were new contributions to the fund but because of prudent, smart investing – investing in real assets," he says.

The fund uses a "four pillars" developmental investment framework, which includes investing in economic infrastructure, social infrastructure, sustainability projects and small venture capital enterprises.

Some of the real assets the fund has invested in include mobile phone carriers with reach across Africa and undersea cables that provide internet services to western Africa.

Social infrastructure projects include a social housing program, which aims to provide housing for lower- and middle-income earners who can't afford a home but are not poor enough to access government assistance.

With South Africa experiencing a 28 per cent unemployment rate,



John Oliphant

Oliphant says that the fund's capital has an important role in growing job opportunities and, therefore, growing the membership of the fund.

This can be through investing in physical infrastructure but also through investing in the social capital of the country. The fund provides education loans that Oliphant says turned a profit in the depths of the financial crisis.

"These education loans provided a diversifying benefit as well as a long-term benefit," he says.

Oliphant also gave a bullish outlook for Africa, saying that the continent would grow strongly in the coming years and would present many attractive investment opportunities to long-term investors. ●

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The race to engage – MySuper an opportunity to reach members

The introduction of streamlined superannuation products has raised concerns about increasing member disengagement. However, it is not all doom and gloom, and AIA Australia suggests MySuper will offer funds and insurers the opportunity to re-engage with their members.

By their very nature, default superannuation products will not require active participation from members, which may result in exacerbating member disengagement when it comes to their superannuation arrangements. Communicating the replacement of default super products with MySuper options presents a chance for funds to re-engage members. Whether the messaging focuses on how much cover members will be provided as part of their new superannuation arrangements, or how members can elect to increase or change cover through a “Choice” product, MySuper is an opening to drive these conversations.

From an insurance perspective, funds will generally be required under MySuper to offer death and TPD cover on an opt-out basis. Funds also have the option to offer income protection cover, and whether to offer it on an opt-in or opt-out basis. These features mean there will continue to be an important role for engaging with members to ensure that they are aware of the features of their insurance cover under their MySuper offering.

With a view to engaging current members, and in preparation for auto-consolidation, AIA Australia

has been working with a number of its funds to implement insurance campaigns. AIA Australia has looked at how we can demystify the process of insurance within super and clearly explain to members how much cover they currently have and how they can increase or change that cover. AIA Australia is also offering additional services such as extra training for call centre staff to provide members with direct support through the application process, which can make a significant difference to the success of these campaigns.

MySuper also offers an opportunity for funds and insurers to partner on improving member education through joint visits to major employers. These visits are another effective means of educating employers so that they can explain to their members how insurance works within super, pointing



Eleanor Ottaviano

There are opportunities for funds and their insurance partners to be proactive in engaging members on these changes and to facilitate initiatives in the best interests of all members

out the advantages of this arrangement, describing how members can assess their insurance needs and identifying

how members may apply for or increase their insurance cover.

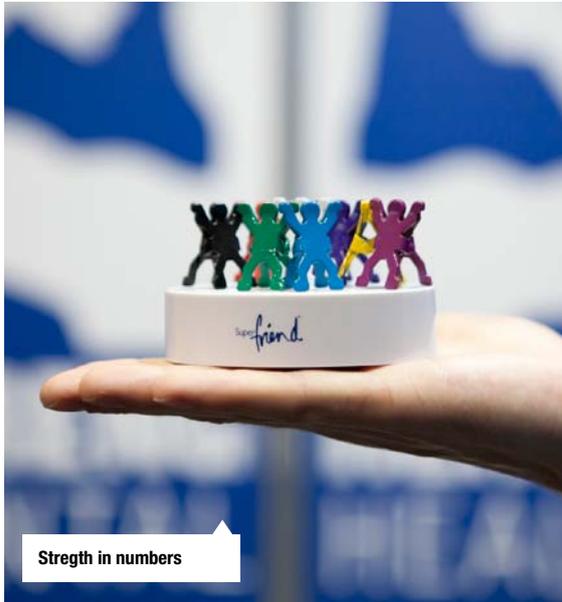
Debate will continue on whether insurance within super further encourages disengagement or not. However, there are opportunities for funds and their insurance partners to be proactive in engaging members on these changes and to facilitate initiatives in the best interests of all members. ●

By Eleanor Ottaviano, Head of Group Insurance – AIA Australia

Your members are our focus



Captured



Strength in numbers



Sunday golf champions: Peter Treseder (AustralianSuper), John Meagher (AMP Capital), Paul Watson (HOSTPLUS) and Warrick Mancini (AMP Capital)



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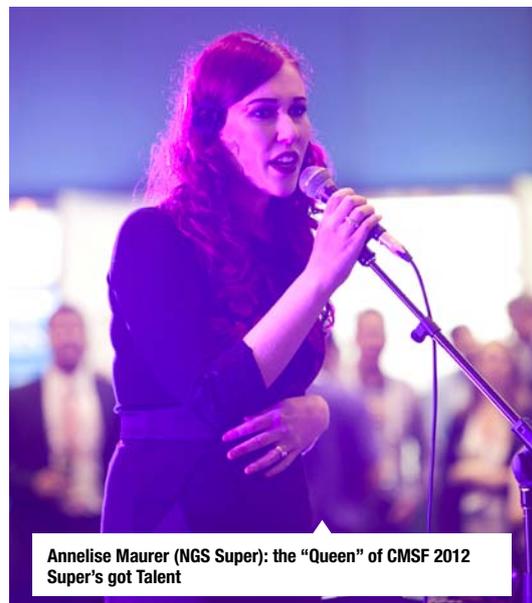
Captured



Kate Bell (Macquarie) and Susheela Peres Da Costa (Regnan)



Ringmaster escapes the circus



Annelise Maurer (NGS Super): the "Queen" of CMSF 2012 Super's got Talent



Bob Herbert (ESS Super) and Sharan Burrow (ITUC)



Gate Wood (Care Super), Sharon Morris (WIS) and Nick Duffy (AI&T)



Two days late for St Patrick's Day, guys: Kaye Wasley (MTAA Super), Peter Eyre-Walker (Superpartners) and Adrian Giacobbe (TWU Super)

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An alternative universe

Alternative assets such as real estate and hedge funds are growing in popularity among mainstream institutional investors. Pension funds, including Australia's superannuation funds, are increasing their allocations to alternatives.

This trend is being driven in part by the disappointing recent returns from traditional asset classes, and the need to diversify into uncorrelated assets.

Real estate investments, in particular, are proving popular with global pension funds. Even in slowing markets, where capital growth is limited, high quality real estate investments can provide stable income flows that match pension funds' predictable liabilities. Indeed these types of assets can function as an alternative to fixed income investments.

According to the Australian Trade Commission, Australia has the second largest hedge fund sector in the Asia-Pacific region, with AU\$32.6 billion in assets under management; the largest Real Estate Investment Trust (REIT) sector outside of the United States with AU\$78.2 billion in assets; and a AU\$24.5 billion private equity and venture capital sector.

This inflow of capital to the sector does not, however, come without cost. Poor investor experiences during the global financial crisis, coupled with a more rigorous regulatory landscape, means institutional investors are demanding better transparency, reporting and performance metrics. Asset owners are also in a strong position to negotiate on fees, including the way in which performance fees are linked to industry benchmarks.

Focus on reporting and analysis

Alternative investments in the past have been associated with high fees and limited transparency. During the financial crisis investors discovered they had insufficient information to make informed investment decisions. In response, they are demanding greater control over their exposures. A recent European survey, State Street European Real Estate Fund Manager Study 2011, revealed institutional investors' top three demands are increased transparency of information on underlying investments, increased transparency of information on fees and increased reporting.

Investors have received reports on exposures, yields and fund values but the scope and granularity of these reports is changing. Asset owners need more insight into the variables that affect investment performance and the liabilities associated with it, particularly in light of the poor performance by private equity partnerships.

This need for information is driving the adoption of advanced analytical tools by super funds and their managers. Modern private equity tools can aggregate data across partnerships and analyse dollar-weighted and time-weighted returns based on asset type and vintage year. For example the State Street Private Equity Index tracks and calculates more than 30 years of historical private equity data and contains a broad set of metrics including internal rates of return since-inception and over a multi-period horizon, and classification by vintage year.



“
Investors can and should demand a fresh approach by managers and embrace the new suite of analytical tools that are available.
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Hedge fund investors want reports detailing how much of a portfolio is independently priced, the proportion of holdings reconciled with third parties and the overall liquidity of the portfolio. They are turning to administrators and custodians for risk and analytics reporting — including transparency into the underlying holding of funds and fund-of-hedge funds portfolios — sector/benchmark analysis, and stress testing to help manage portfolio risk. Investors also need aggregation services to give them a consolidated view of all their alternative portfolio holdings.

The increasing allocation to alternatives is promising for the sector but it also puts super funds in a strong negotiating position. Investors can and should demand a fresh approach by managers and embrace the new suite of analytical tools that are available. Adapting effectively to this brave new world will be the key to success. ●

By Greg O'Sullivan, Head of Sales for State Street Global Services, Australia and New Zealand

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*US\$2.0 trillion in assets under management as of December 31, 2010. This AUM includes the assets of the SPDR Gold Trust (approx. \$96 billion as of December 31, 2010), for which State Street Global Markets, LLC, an affiliate of State Street Global Advisors, serves as the marketing agent.

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Innovation needs financial backing

Australia must improve the commercialisation of research to further knowledge industries and ensure the nation's economic strength is not reliant on the resources and financial services industries, Peter Beattie, the former QLD Premier, told CMSF 2012.

He urged super funds to invest in the commercialisation of Australian research through venture capital investment programs.

Beattie, who was appointed by the department of innovation as resources sector supplier envoy on August 23, 2011, argued that knowledge industries can help super funds continue the "virtuous circle" of earning investment returns while supporting jobs growth and thereby securing future superannuation contributions.

He said mining is an economically valuable industry but provides less than 2 per cent of jobs in Australia, while

services businesses account for nearly 80 per cent of jobs. "Governments in this country should be planning for a post-resources economy," Beattie said.

He cited a study by INSEAD, the Fontainebleau, France-based business school, showing that Australia ranked highly in terms of research output but was poor in commercialising these ideas.

Australia ranked 31st in innovation output on the INSEAD Global Innovation Index 2011 but in terms of "innovation efficiency", or ratio of input to output, the nation plummeted to 96th place.

"We are terrible at commercialising ideas," Beattie said. "That's our major weakness in our economy."

About half of government funding for commercialisation is absorbed by automotive projects. This means less than 1.5 per cent of total government research funding for research is spent



Peter Beattie

on commercialisation research in other industries.

This has helped make Australia an "innovation mine" from which research is extracted and commercialised overseas, Beattie said. ●

AIST fires back at retail criticism

AIST chiefs dealt a broadside to critics of industry fund governance by stressing that not-for-profit superannuation funds reveal more about their directors while delivering superior performance.

Citing APRA data, AIST president Gerard Noonan said industry funds have beaten retail rivals by 1.6 per cent each year for the past eight years. He said the renewed criticism was aimed at the independence of union- and employer group-aligned trustees.

"The class of professional company directors, long used to finding ways of accessing the lucrative corporate board merry-go-round, was feeling out in the cold and wanted to find a way to become directors in a sector accounting for over \$400 billion," Noonan said.

Fiona Reynolds, CEO of AIST, said representative trustees were subject to "unrelenting, unfounded and politically-driven criticism" of the "role that employer associations and unions have played together in building



Company directors wanted access to a sector with \$400 billion



national savings".

"We have a healthy level of competitive tension in our system," Reynolds said.

New AIST research shows that 67 surveyed industry superannuation funds disclose more about trustee remuneration, experience and fund investments than retail funds.

The funds were measured against the AIST governance framework, released in 2011. ●

Life's better with the right partner



Unbalanced



By the numbers

Ahead of this week's final parliamentary vote to increase the SG to 12 per cent, the Essential Media March Poll, commissioned by AIST, shows that many Australians are still disengaged with superannuation.



Mather's passion lives on

AIST has launched the annual Erik Mather Award, which will recognise emerging governance talent in the Australian superannuation industry. Registrations to apply for the award will open next month, with the winner receiving flights, accommodation and attendance at the annual United Nations Principles of Responsible Investment conference, which will be in Rio de Janeiro this June. Chief executive of AIST, Fiona

Reynolds, said the award was "in honour of Erik and the esteem we hold him in", and sought to acknowledge those with an interest in environmental, social and governance (ESG) investment research. Mather had a passion for ESG that spanned more than a decade. He launched Westpac's governance advisory service in 2002, which spun out to become Regnan Advisory Services in 2007. He died of cancer last year, aged 45. ●

Super prizes up for grabs

Ian Morante from NSF Super may have claimed the iPad2 giveaway from Superpartners – within two hours of the bConnected exhibition hall opening! – but keep the little key in your delegate satchel handy. It could still unlock more free prizes. The people at Superpartners' still have nine gift vouchers – for Myer, JB Hi-Fi and iTunes purchases – to give to delegates whose key can unlock the clear plastic box at their stall. For the tweet-fiends out there, a set of Bose noise-cancelling earphones is being dangled as the reward for the best "Twitpic", or tweeted photo, of the member administrator's stall. Be sure to use the #CMSF12 hash-tag when you do – and then see other conference-related comments lobbed into the twitterverse. ●



March 20, 2012 - CMSF Daily News

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Printing: Snap Printing Brisbane

CMSF News is published by Conexus Financial, the publisher of Investment magazine. All views expressed are those of the authors and do not reflect the views of the conference organisers.

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