



David Neal

Inside

- 02** Focus on fee disclosure
- 03** New multi-manager construction
- 06** Technology and group insurance
- 07** Crafting post-retirement solutions
- 08** Unbalanced

Big funds tackle peer risk

Focusing on the risks faced by members and judging each investment on its merits helps superannuation funds break from common asset allocations, investment chiefs at the Future Fund and QSuper told CMSF 2012 yesterday.

The past 20 years have seen at least three financial crises, the rise of the superannuation guarantee from 3 per cent to 12 per cent and the maturing of fund memberships, said Brad Holzberger, chief investment officer of the \$30 billion QSuper. But asset allocations remain largely static.

"The risks you are exposing your members to have changed but asset allocations have remained the same,"

Holzberger said. "I would ask why asset allocations haven't changed, and what would lead us to change?"

QSuper believes retirement income streams for its members hinge on their exposure to inflation, interest rates and growth assets, such as equities. This focus has spurred the fund to develop investment strategies suiting different groups, or "cohorts", of members and withdraw from performance surveys. Such league tables "are no longer relevant as a comparator for our fund," Holzberger said.

One way in which the \$73 billion Future Fund remains focused on its objective of returning CPI plus 4.5 per cent to 5.5 per cent is to imagine that

I would ask why asset allocations haven't changed

its investments are held in a single portfolio and not broken into asset class segments.

"We want to compare all the good ideas we see in the world against each other and create a portfolio that way," said David Neal, chief investment officer of the fund. "Being freed up to do that and not think that we're too far away from what everyone else does is incredibly liberating."

Anthony Grillo, managing director of the American Securities Opportunities Fund, said peer risk also manifested in his home market. In aggregate, US pension plans have reduced their allocations to equities from 60 per cent to the "mid-40s" since 2007, he said. ●

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Clean up messy fee rules, say funds

Investment fee disclosure rules should focus on net returns to members and what fiduciary agents are paying to providers, chief investment officer of Sunsuper, David Hartley, said in a fee disclosure session yesterday.

"I want trustees to have the right motivation of a net return to me, not that it looks like costs are lower," he said. "The current fee disclosure rules are a mess."

"It is idiotic to dig into every cost. There are all sorts of fees, but it is impossible, impractical and largely irrelevant to identify them all. It takes the focus away from finding good opportunities," he said.

A survey of contracts that superannuation funds sign with investment managers, and a resulting



Brett Elvish

cost benchmarking report would be the first thing Hartley would do if he worked for the market regulator.

"Then when ASIC comes in to the fund you'd both be able to see what

the fund is paying for service providers relative to others. It's a benchmarking exercise," Hartley said.

Brett Elvish, director of Financial Viewpoint, said the enhanced fee disclosure regime currently in place was based on a sound principle – the additional cost of professional management – but it has not kept pace with innovation in capital markets.

"I think funds should be looking at whether they have a cost budget, or just a fee budget," he said. "If they don't then they are breaching their fiduciary obligations."

ASIC leader of investment managers and superannuation, Ged Fitzpatrick, said the regulator's focus was on achieving fair, efficient financial markets with confident, informed consumers. ●

Investors call for end to PPPs

The public-private partnership (PPP) model is broken and superannuation funds need to engage government about how infrastructure investment will evolve or risk being dominated by vested interests, CMSF 2012 heard.

The stark warning came from Peter Taylor, Hastings Fund Management's executive director, who led a roundtable looking at the challenges in investing in global infrastructure.

Taylor said the PPP model is declining around the world amid concerns about the difficulty both governments and investors have in formulating a deal which benefits both parties in the long-

term.

"I see the PPP as going out the door. It hasn't worked for government and it hasn't worked for equity [investors]," Taylor said.

The investment model that was used to build Sydney's desalination plant is an indicator of future models of infrastructure investing, Taylor said.

In this model pricing is overseen by a regulator, providing a rebalancing mechanism over time instead of leaving investors and the government stuck with the long-term bets they made in the initial deal.

"The only ones making money out of the current PPP model are construction

companies and merchant banks," Taylor said.

He called on super funds to "step up their engagement" with governments to "isolate the noise from those that have vested financial interests from those that have an interest over the duration of the investment".

Attendees at the roundtable said the challenges of investing in global infrastructure included valuing assets, managing foreign currency exposure, sovereign risk and the appropriate risk premium investors should receive when investing abroad. ●

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I see the PPP as going out the door. It hasn't worked for government and it hasn't worked for equity

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SPONSORED EDITORIAL

Rethinking multi manager construction

While traditional multi-manager funds offer value through the generation of alpha, investors may not be getting the results from these strategies that their fees deserve. Traditional multi-manager approaches can constrain managers' ability to achieve alpha, create redundancy and focus too much on benchmark-relative risk and return. Collectively these effects can cost return and an erosion of fees, while not greatly reducing risk.

There is a possible alternative, however, that better utilises managers' skills and improves the risk-return ratio. A multi-mandate approach that combines different strategies eliminates the constraints placed on managers and optimises costs. Under this approach, risk allocation, the types of mandates managers are awarded, and performance metrics are revised.

Drawbacks to conventional design

In a conventional example, an asset class portfolio is created by first setting performance targets against a benchmark, determining portfolio tracking error and establishing appropriate risk constraints. Managers are then selected. A tracking error limit is established for the managers against the market cap and a risk budget is set against the total asset class limit. Performance is measured for all managers against the market cap index.

This practice compartmentalises portfolio construction and allows an easy means to measure and assess performance. Risk management is

straight forward and there is a clear allocation of decision rights internally and externally.

There are, however, a number of potential inefficiencies in this methodology.

There is a growing collection of studies that suggest traditional cap-weighted indices may not be the best indicator of asset class risk/return, or in technical terms, the cap-weighted index is not mean-variance efficient. As a result, we have seen a growing interest in and development of alternative indices that offer the prospect of improved return and risk outcomes relative to cap-weighted indexes.

In the conventional model there is considerable focus on benchmark-relative returns rather than mandate structures that allow active management to deliver. Moving beyond the conventional focus on manager 'benchmarking' and index-relative evaluation of risk and return, to diversified combinations of high conviction managers along with advanced beta concepts may deliver better outcomes through reduced risk and increased return relative to a conventional approach.

An alternative approach

A possible alternative is a 'new' multi-manager approach, which seeks to utilise the new understanding of beta along with mandate structures that better allow active managers to deliver out-performance. Under this approach, the asset class portfolio would keep the overall objective and aggregate limits, but would change the way risk is



Lochiel Crafter

allocated, types of mandates managers are awarded, performance metrics and allocation of responsibility.

An example is dividing an Australian equity portfolio between index (20%), high conviction (50%), low volatility (20%) and small cap (10%) strategies. Analysis by SSgA suggests over the past 10 years, this approach would have significantly outperformed passive and core-index approaches with less risk.

This new multi-manager approach does have some hurdles, such as greater effort and risk from structuring, higher governance costs and higher index-relative tracking error. However, in the pursuit of meeting investors' need for improved risk-reward outcomes, it potentially offers a greater reward with less at stake.

At the end of the day, fund designers should ensure portfolio redundancy levels are kept low, review managers' overall best practices, and ensure total asset class performance risk and return is consistent with their expectations. ●

By Lochiel Crafter, Head of Investments, Asia Pacific, State Street Global Advisors

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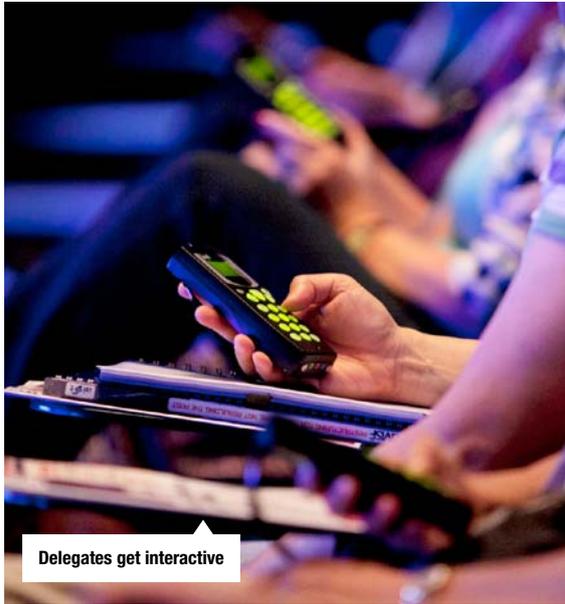
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Attendees head out for more informative sessions



Geraldine Doogue: full-time, journalist part-time Jedi



Louise Aracas (AGEST) and Sue Voglis (AGEST)



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Captured



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Vivienne Murray (First Super)



Wilhelm Harnisch, trustee of the year, with Ray Macken (Schroders)



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App, app and away: utilising technology to increase member engagement

There is an increasing trend for super funds to partner with their insurer to develop technological innovations to foster member engagement. While there are often complexities involved in integrating any new technology with legacy systems, these issues can be overcome with a little flexibility. The critical piece to any new venture is ensuring the super fund and insurer have a common vision for how the technology will benefit members.

So how do we use technology to benefit members?

AIA Australia has worked with a number of its super funds to develop solutions specifically designed with their members in mind. One of the projects AIA Australia has been working on in this area is LIFEapp. LIFEapp is an online tool to help guide members step-by-step through the insurance application process, which includes an insurance needs calculator, a quote tool and functionality to apply online to increase cover. The tool was launched in 2010 for AIA Australia's industry funds, public sector funds and master trusts and since its introduction has more than doubled application volumes for some of these funds, in some cases with very limited marketing of the tool.

For a number of the super funds, the take-up rate by members was far higher than expected. Members had not fully utilised the online tools available on fund websites, so it was difficult to

determine whether LIFEapp would increase engagement, particularly when it came to insurance within super. However, the success of LIFEapp illustrates that members want to understand more about their insurance, and it's not just the tech savvy Gen Y's. AIA Australia has found that the average age of members jumping online to understand more about their insurance needs and apply for more cover is closer to age 40, and spans a wide range of occupation types.

The driving purpose for any technological improvement needs to focus on the following simple principle: 'How can we make it more convenient for members to engage?'. In answering this question, AIA Australia has also developed eClaims, a tool that offers members the convenience and ease of lodging their claims online, eliminating

LIFEapp is an online tool to help guide members step-by-step through the insurance application process

the burden of filling out paper forms, and again offering them step-by-step guidance through the process.

With claim time often described as "the moment of truth" for the insurer and the super fund, a disengaged membership can result in late claim notifications, in some cases in excess of two years after the incident, impacting



Eleanor Ottaviano

the ability to assist members in returning to work.

eClaims makes it easier for members to lodge a claim and cuts out a significant portion of the delays inherent in a paper claims process. This is done by ensuring members provide the right information about their claim and reducing need to go back to the member to ask for completion of further forms. Receiving the claims earlier also provides AIA Australia and their super funds with the opportunity to implement an appropriate rehabilitation strategy at an earlier stage where appropriate for the ultimate benefit of the member.

These examples demonstrate how working together, super funds and insurers can provide members with simplified tools that increase member engagement at every stage of their insurance cover. Member engagement in respect of insurance needs to be about making the process convenient and easy to understand, and this demonstrates how a little bit of technology can go a long way. ●

2011 Group Insurer of the year

Super Review / Heron Partnership





Funds not ready as members retire

Most Australians are not financially prepared for retirement – nor are their superannuation funds, CMSF 2012 heard.

In the Essential Media March Poll, commissioned by AIST, 70 per cent of respondents said they will need \$400,000 or more in retirement. However only 26 per cent expected they would have that much.

“There’s an expectation gap,” said Fiona Reynolds, chief executive officer of AIST. At age 65 most men have \$190,000 in superannuation savings, while women have \$112,000, and longevity concerns seem to be driving more people to extend their working lives.

“The number of workers aged between 60 and 64 has doubled in the last decade,” Reynolds said.

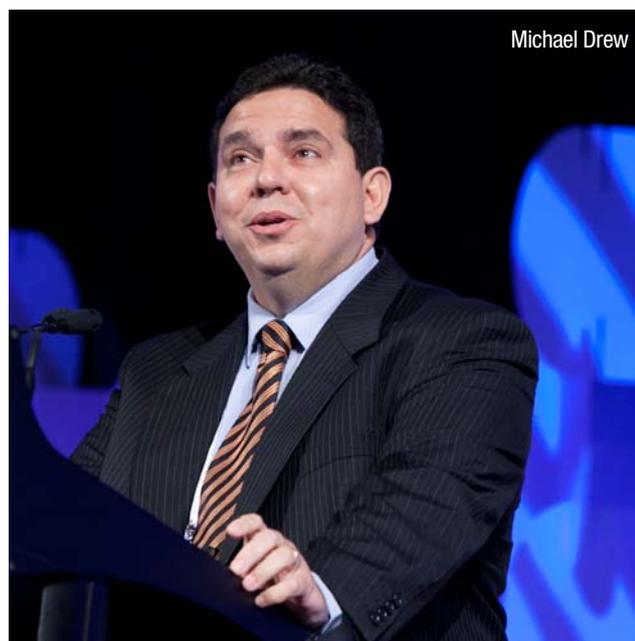
Michael Drew, professor of finance at the Griffith Business School, said the super industry has not developed

strategies to tame “sequencing risk”, or the chance that people approaching retirement will suffer deep investment losses – such as in the global financial crisis. He said members face a one in six chance that they will lose money in their final year as accumulation investors.

“Sequencing risk matters. If you have a 25 per cent fall in markets in the last five years of your working life, it is equivalent to losing one-and-a-half-times your lifetime contribution to super,” Drew said.

He said too much of the super reform debate has focused on fees. “We need to think about the objective, and ask what are we doing when the largest amount of [members’] money is at risk?”

Nick Callil, head of post-retirement solutions at Towers Watson, said that the age pension, currently used by 80 per cent of retirees, should be factored into retirement products manufactured by the industry.



Michael Drew

Funds should know as much about members’ financial situations as possible and “interrogate” the data they have about them. ●

Super reforms need strong plans

Funds should start to plan how they will overhaul their back office processes to comply with Stronger Super reforms, the Australian Tax Office (ATO) warned.

Philip Hind, the ATO’s national program manager data for standards and e-commerce projects, provided a timeline for implementation of SuperStream requirements including new data and e-commerce standards for superannuation transactions.

This includes providing a general plan for implementing new projects by August this year and having the initial system ready for trial by March 2013.

Sticking to this timeline will give funds, their administrators and other business partners enough time to meet the June 2013 deadline for SuperStream, Hind said.

Damian Hill, CEO of REST Industry Super, said funds should already be planning to implement the

StrongerSuper reforms. However, he acknowledged that getting the 150,000 employers who use REST to comply with the new SuperStream standards would be a challenging engagement exercise.

Nigel McCammon, Colonial First State’s general manager of client services, said it was a challenge for the industry to show both members and employers that they could seamlessly implement the reforms. ●

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unbalanced

By the numbers

A recent AIST survey of 65 superannuation funds shows that about 21 per cent of trustee directors are female. This is roughly double the average proportion of female corporate board members. However 16 funds had no female representation.

718

the number of Women in Super members

\$3 million

amount raised in 2011 Mother's Day Classic

21%

the proportion of female board members in superannuation

16

super funds don't have any women on their trustee boards

\$10.8 million

total funds raised by the Mother's Day Classic for the National Breast Cancer Foundation (NBCF)

15%

of all money distributed for research by the NBCF in the last 14 years came from the Mother's Day Classic

9

super funds have one woman on their boards

40%

the desirable percentage of women represented on super boards, a goal of WIS

Super women gain WIS awards

Employer services representative at BUSS(Q), Cathy Powell, has become the 2012 recipient of the Women in Super scholarship to attend Global Dialogue in London this May. Powell was awarded the scholarship at the WIS annual general meeting yesterday, which also saw HESTA recognised for its support since it staffs the highest number of WIS members from one company. Anne-Marie Corboy, CEO of HESTA, said that every female employee of HESTA is a WIS member. Mavis Robertson, founder of WIS and its national secretary until last year, was awarded a life membership at the meeting.

WIS has 718 members, with its membership boosted from 554 last year due in part to an inaugural national roadshow. Labour market academic, Professor Barbara Pocock, will present at this year's roadshow in August/September, which is open to the entire industry. ●



Cbus director scoops trustee award

Cbus director Wilhelm Harnisch has been awarded the 2012 Trustee of the Year by AIST. Harnisch, who is the chief executive of Master Builders Australia, has been a trustee director of Cbus for 12 years. Ray Macken, head of sales at Schroders, presented the award and said it reinforced the crucial role of representative trustees in the superannuation industry. AIST chief executive, Fiona Reynolds, said Harnisch was a deserving recipient of the award after playing a key role in the fund's strategic planning for the implementation of the FoFA and Stronger Super reforms. "Coming from a key employer association, he's living proof that organisations with different interests can work well together to achieve the best outcomes for their members," Reynolds said. ●



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