



investment magazine



NEWSLETTER DAY 3 – MARCH 21, 2012 – LATE EDITION



Geraldine Doogue, Steve Bracks, Cate Wood, Benjie Fraser and Gerard Noonan

Funds plan for the future

The not-for-profit superannuation movement should promote the strengths of its representative trustee system amid criticism that it lacks independence and professionalism, CMSF 2012 heard.

Steve Bracks, former Victorian premier and current chair of Cbus, said the representative trustee system not only delivered good oversight but also brought union and employer group officials with skills in various disciplines to fund boards.

“There are strengths of the representative system that we undersell,” Bracks said.

But he warned that funds should continually check that they have a

well-functioning blend of skills and personalities on boards. “If you don’t have that contestability of ideas, that forum of debate, you should change the board or the chair,” he said.

Cate Wood, director of AGESt and Care Super, said funds must ensure they have “smart, ethical people” on boards that “think independently, take advice from experts and are aligned with the interests of members”.

She questioned why not-for-profit funds faced criticism for their links with unions and employer groups.

“If you had a system that in 20 years has dealt with enormous growth and year-in-year-out outperformed those held up as the experts, you would think

people would ask: ‘What is it about this system that has achieved these results?’” Wood asked.

She said that the survival of the representative trustee system hinged on a political debate.

Benjie Fraser, head of global pensions consulting at J.P. Morgan, said the super system was endowed with an “embarrassment of riches”: its supply of trustees, compulsory savings and the health of the domestic economy, which prevented the government from becoming tempted to draw on it to boost tax revenue.

He said it was important for new trustees to know that universal super was a hard-won achievement. ●

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The changing model of infrastructure

Superannuation funds need to push governments to increase the availability and types of infrastructure deals available, CMSF 2012 was told today.

While superannuation funds typically have between 5 to 10 per cent allocated to infrastructure, among the highest in the world, frustration was expressed that more deals were not becoming available for investment.

Infrastructure industry veteran and Infrastructure Australia consultant Michael Evers told the forum that cash-strapped state governments needed \$500 billion of infrastructure investment over the next decade.

"It is clear that financing new infrastructure is a national problem and can only be solved by governments



Garry Weaven

raising funding that isn't debt," Evers said.

Evers called on the superannuation industry to "pitch hard and smart" to governments, outlining different ways of financing infrastructure and

changing the private, public partnership model.

One model could involve hiving off parts of a government utility's networks that has an ongoing income stream to an investor and using the capital raised to invest in new infrastructure.

Also talking at the plenary session, Industry Funds Management chair Garry Weaven, said the major problem was the flow of deals.

"Shortage of funding is not the problem; shortage of deals is the problem," he says.

Mike Fitzpatrick, chair of Infrastructure Capital Group told delegates that the best opportunities for Australian super funds were in open-ended, unlisted funds that invested in domestic assets. ●

Funds seek liquidity lifelines

Managing liquidity risk in superannuation needs to not only take into account fund liquidity but also the unique characteristics of fund memberships, CMSF was told.

Access Capital Advisers chief executive officer, Alexander Austin, said that regulators saw liquidity risk as a key risk that needed to be comprehensively managed by trustees.

He cited Australian Prudential Regulatory Authority research in 2011 that found that industry funds had on average 10 per cent more capital invested in illiquid assets than retail funds.

The APRA survey also broke down

the risk-adjusted returns of these funds and found that the outperformance of industry funds compared to their retail counterparts was in part due to this higher allocation to illiquid assets.

While allocating to illiquid assets such as private equity, property and infrastructure can provide attractive return opportunities, Austin warned that it required more intensive management of liquidity levels.

"You should only invest in illiquid assets if you can be sure it will deliver this outperformance," Austin said.

Access Capital Advisers associate director, Justin Webb, took delegates through the range of factors they should consider when analysing how fund

memberships may affect liquidity.

They include understanding the demographics of the membership base, including the age and account balance of members, which can influence inflows and outflows. Analyses of member behaviour can also identify which members are more likely to switch into conservative investment strategies during market declines.

This information can then be combined with liquidity investment information to provide more accurate, tailored stress testing.

APRA research shows that only 6 per cent of funds conduct stress testing focused on liquidity risk. ●

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Captured



Colin Tate (Conexus Financial) with Melissa Hillebrand (Aurum Funds)



Mad Katter



Two thumbs up: Michael Ohlson (Tibra Investment Management) and Fiona Reynolds (AIST)



Ties off: Stephen O'Brien (Deutsche Asset Management) and Ian Martin (State Street)



Picking winners with Superpartners



Comrades: Ian Robertson (LGS) and Ian Manton-Hall (Hermes)



Financial Synergy had the best stand at CMSF 2012

2011 Group Insurer of the year

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unbalanced

By the numbers

Delegates at CMSF 2012 could share their views on a smart phone app and via electronic voting during sessions. Here is a sample of what attendees were thinking.

83%

agree funds have entered a new era of low growth and low returns

96%

believe member engagement will still be relevant after MySuper comes in

42%

think funds have little consideration about the impact of climate change on their investments

86%

said advertising was relevant for superannuation

52%

said Australians were not ready to move away from the 'lump sum' mentality and consider other retirement products

67%

expect their fund to return between 0 - 5% on the default option in 2012

73%

agree funds need to do more to increase investment in innovation

81%

expect funds to increase their infrastructure investments in the next decade

And the winners are...



Olga Salouros (SuperTrace) accepts the ERF of the Year award from Nathan MacPhee (SuperRatings). SuperTrace is the first fund to win the award from the incumbent AUSfund



Infinity times two: Peter Lambert (LGS) accepts the SuperRatings Infinity award from Nathan MacPhee. LGS' sustainability efforts were recognised for the second year running



Meanwhile...



John Brogden of the FSC sends his apologies for missing the final plenary



March 21, 2012 - Late edition - CMSF Daily News

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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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