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David Hartley

"Members could already gain a fair assessment of the value of their fund by seeing the published fees, combined with the return figure in their statements. Any other fee disclosure could end up only adding to the fund's costs. As a fiduciary do you need to spend more of your time and money to do that type of level of investigation?

GED FITZPATRICK, SENIOR EXECUTIVE LEADER, INVESTMENT MANAGERS AND SUPERANNUATION AT ASIC

HARTLEY CALLS FOR FEE CLARITY

David Hartley, chief investment officer of Sunsuper, has challenged the industry to publish for members the costs of running their fund alongside the cost of direct fund management fees and an estimate of trading fees.

He believes not only do trustees have a fiduciary responsibility to disclose fund costs as a proportion of fees to members, but that the disclosure will lead to a more nuanced debate around the fees and returns of high fee alternative asset classes and their impact on overall fees.

"The RSE is looking after members interests, so it is right for member to know how much they charge," he said.

While fund management fees would be accurate, he said estimates of indirect costs such as the tax, brokerage and FX spreads on trading needed to be only fair and reasonable as it was too hard to gain full accuracy.

The RSE is looking after members interests, so it is right for members to know how much they charge.

Hartley's presentation to delegates was challenged by Gerrard Noonan, chair of MediaSuper. Noonan thought members could already gain a fair assessment of the value of their fund by seeing the published fees, combined with the return figure in their statements. Any other fee disclosure would end up only adding to the fund's costs.

"As a fiduciary do you need to spend more of your time and money to do that type of level of investigation?"

Hartley replied that he viewed such a disclosure as only incurring a small cost for funds.

The debate was framed by a presentation by Ged Fitzpatrick, senior executive leader, investment managers and superannuation at ASIC. He said that while legislation around more transparent fee disclosure was forthcoming, it was also up to the industry to devise best practice in communicating this to members.

Raewyn Williams, director of research and after-tax solutions at Parametric, predicted trustees would increasingly want to partner with organisations that could bring transparency to the costs embedded in the portfolio.

Colin Tate and Cath Bowtell

CASE STUDY: REFLECTIONS ON A MERGER

The key players in the merger between AGEST and AustralianSuper revealed some of the secrets of the deal to delegates.

AustralianSuper took four years to earn back the $11 million costs of its merger with AGEST it was revealed in a session entitled 'To Merge or Not To Merge' at CMSF 2015.

The figure was revealed by Paul Schroder, group executive membership of AustralianSuper, in response to questions made during a presentation given by Cath Bowtell, former chief executive of AGEST and current director of Industry Fund Services.

Bowtell had revealed that the cost of merger to AGEST was $1.4 million or 10 per cent of the trustee office budget.

Schroder, who was sitting in the audience, said the costs of the merger were what AustralianSuper had projected, but that the merger had hit home how a suitable merger partner needs to be sufficiently large to justify such costs.

"We went into this thinking that we should merge with anyone who wants to merge with you, but that is fundamentally untrue," he observed.

One of the surprising consequences of the merger were the learnings a fund the size of AustralianSuper ($33 billion at the time, compared to $3.8 billion for AGEST) could gain from a smaller fund. Schroder noted AGEST's website was superior and that the successful format for AGEST member briefings became the AustralianSuper model.

One of AustralianSuper's major costs was the provision of administrative support for AGEST, while a chunk of AGEST's costs were for a due diligence report from PwC.

The criteria AGEST used for choosing a fund to merge with were matching providers and a healthy members growth rate. An additional source of comfort was that AustralianSuper could demonstrate that they had successfully completed a merger previously.

In hindsight, Bowtell justified the merger by revealing that the $1.4 million cost to AGEST was dwarfed by the $15 million of savings on investment fees for most of AGEST's 168,000 members in the first year following the merger.

A major stress in the merger had been the process of switching investments. AGEST switched to AustralianSuper's custodian three months prior to the merger and then in a separate exercise switched investments to AustralianSuper.

This led to a heavy workload for the fund's 1.5 person investment team and in hindsight Bowtell said extra help should have been sought.

Linda Rubinstein, who was the last chair of AGEST, and who was in the audience for Bowtell's presentation was asked to comment on the issue of trustee self-interest derailing mergers by Colin Tate, chief executive of Conexus Financial, who chaired the session. She replied that either consciously or unconsciously such self-interest had led to the failure of many proposed fund mergers. She said the excuse of "cultural differences" given by trustees in failed mergers was often code for self interest.

> *"We went into this thinking that we should merge with anyone who wants to merge with you, but that is fundamentally untrue"*

Bowtell's presentation also contained a gloomy message to delegates that the tide was turning against many funds viability and of how trading conditions were tougher than when AGEST merged with AustralianSuper.

One of the new pressures is on the collaboration between industry funds. This has brought economies of scale on services when funds were smaller, but as funds grow many are questioning the logic of this. "The dynamic for collaboration is breaking down," she said.

Bowtell presented a chart that showed the industry sectors most likely to lose workers and those most likely to grow, to highlight funds that would be vulnerable to losing members.

Her chart showed manufacturing and mining would have a declining workforce in Australia, but that healthcare, retail and education would grow.

Lastly she challenged the audience to honestly reflect on the competitiveness of their fund. "It is a good discipline to ask if you would win a default tender against another fund's default," she said. She concluded that it was not enough for a fund to justify its existence by saying it was viable – it had to be flourishing, she said.

Congratulations to JPMorgan, best stand CMSF15

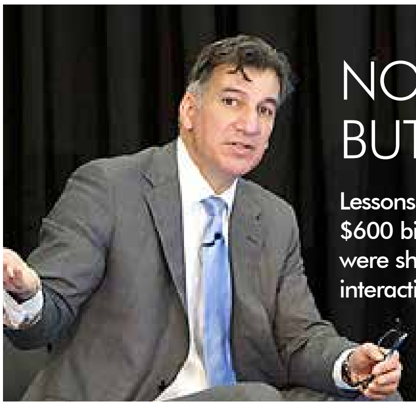
One of the more graceful moments of the conference

AIST's Annmaree Lourey and Tom Garcia

CAPTURED

CMFS delegates are used to playing with fire

FINAL WORD



NOT-FOR-PROFIT BUT NOT-FOR-LOSS

Lessons from an American fund, with $600 billion funds under management, were shared with delegates in a highly interactive session.

John Panagakis

Asked where TIAA-CREF took its inspiration from, given that many looked up to it, John Panagakis, head of asset management business development, said that he was inspired by how funds in other countries were innovating and meeting challenges in their environments, particularly those in Australia, Chilli, UK, Netherlands, and Canadian as these were "market leaders".

When asked about mergers he advocated "competition cooperation – coopetition" as the framework for deciding between the advantages that came from economies of scale versus member's best interests being subsumed. This theme of coopetition was also the philosophy TIAA-CREF took with moving their business and the industry as a whole forward.

On the topic of technology Panagakis said in the 90s TIAA-CREF was focused on lowering expenses and didn't invest in technology giving its competitors an edge. It has now been a major investment with close to 10 per cent of TIAA-CREF's 10,000 employees dedicated to that area. Panagakis said that they were almost at market parity with their technology adding "you don't need a Ferrari, but a good solid Buick".

"We are not trying to be all things to all people. It's still all about the members. Any business we get into we return the profits to the members. We are not-for-profit, but we are also not-for-loss," Panagakis said.

TWEETS OF THE WEEK

Mavis would be happy that she has got to be part of #cmsf15 after all!

FIONA REYNOLDS @FIREYNOLDS

The reduction in the pension cap in the UK was clearly driven by the need for tax revenue according to Segars. We have been warned.

DAVID KNOX @DR_DAVIDKNOX

Super appeals to the socially responsible Gen Y. We need to promote this aspect more to keep bringing in passionate young peeps

GEORGINA LEE @GEORGINAATWORK

#cmsf15 it looks like Melbourne outside, but with better waves

LUKE HOOPER @LUKEHOOPER6

How will #superannuation support the new labour force? portability, flexibility and engagement seem key

RONMULLINS_IQ GROUP @RONMULLINS75

3 out of 4 Global pension funds will be ramping risk appetite

JODI PETTERSEN @JODISHED

When women thrive businesses thrive, time to increase female board representation from 19% #cmsf15

DANIELLE STEWART @DGKSTEWART

#cmsf15 we are now in the digital economy the third big thing since the birth of JC!

J BRIAN MITCHELL @QMVBMITCHELL

Closing remarks

"As the 25th year of CMSF comes to an end I'd like to thank you all for making the conference a forward thinking and collaborative event. Without your keen participation we wouldn't have the robust discussions during and between sessions that we have seen over the past 3 days. To honour Mavis's life work I am pleased to announce that future CMSF's will include a major plenary named The Mavis Roberston Address. This plenary will be dedicated to challenging us to think about progressive social change, social justice and challenge the status quo."

Angela Emslie, AIST president

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