

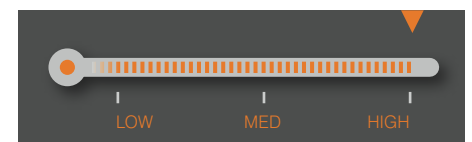
EQUITIES SYMPOSIUM

LOCATION:
YARRA VALLEY, VICTORIA

DEGREE OF FOCUS ON KEY THEMES



INVESTMENT FOCUS OF FORUM CONTENT



Wednesday 19 September – Friday 21 September 2012

Commences Wednesday evening and concludes Friday afternoon



In the current macroeconomic environment, where uncertainty across markets globally is increasing, there is a need for more in-depth examination of equities as an asset class. Equity investments represent, on average, more than 50%¹⁴ of default strategy of institutional portfolios, the largest allocation to any one asset class. The allocation bias of Australian superannuation funds to equities, in addition to the increasing sophistication of institutional investment teams, both warrant more in-depth research, due diligence and understanding of the dynamics behind institutional equity portfolios.

The Equities Symposium aims to provide insights into the evolving role of equities in funds' portfolios, the determinants of a successful investment strategy, allocation across risk and asset classes, the use of benchmarks and derivatives. The Symposium also examines opportunities across domestic and global equity markets, while at the same time discussing the challenges to the effective implementation of investment decisions in the equity portfolio.

WHO SHOULD ATTEND?

Chief investment officers, key decision makers of the investment staff of Institutional Investor entities involved in the appointment and monitoring of equity managers, as well as investment committee members, trustees and senior investment staff of Institutional Investor entities with responsibility for directly or indirectly managing fund assets exceeding A\$1 billion.

ATTENDANCE:

Approximately 30 superannuation fund representatives and 15 sponsor delegates

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CPE POINTS

The key challenges identified by delegates at the inaugural 2011 Equities Symposium, hosted in October, included: currency attribution and its impact on returns in the equity portfolio, capacity constraints, benchmarking, tax optimisation, internal versus external management and tail risk protection.

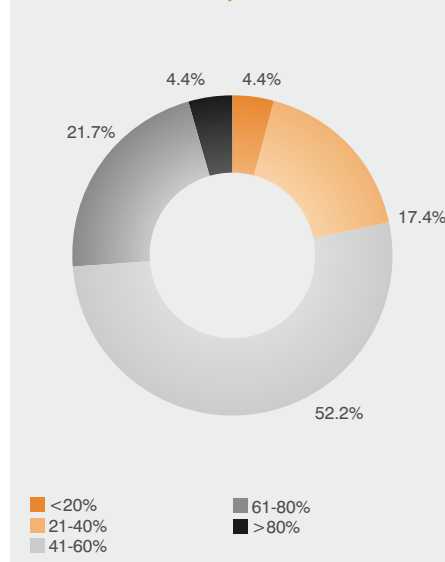
Key takeaways centred around the risk of a decline in the currently high rate of economic growth in China; a renewed focus on currency and the role of active currency management in equity portfolios; a growing need for suitable post-retirement solutions; and implementation of alternatives in the equity portfolio.

A prominent bias towards domestic equities was confirmed at the 2011 forum. Responses from delegates indicated that 78% of superannuation funds invested 41% or more of their portfolio in domestic shares (Fig 1).

This places the issues surrounding capacity constraints high on the agenda on the list of current challenges Australian superannuation funds are facing with respect to equity investments. This sentiment mirrored that identified at the 2011 Major Market Players forum held earlier in the year (Fig 2).

It is a widely held notion that the Australian economy, largely driven by the performance of its mining sector, is highly dependent upon the sustainability of the Chinese growth story. In relation to this, more than 50% of delegates at the 2011 Equities Symposium noted they still believe the current level of growth in China is sustainable in the next 5 years

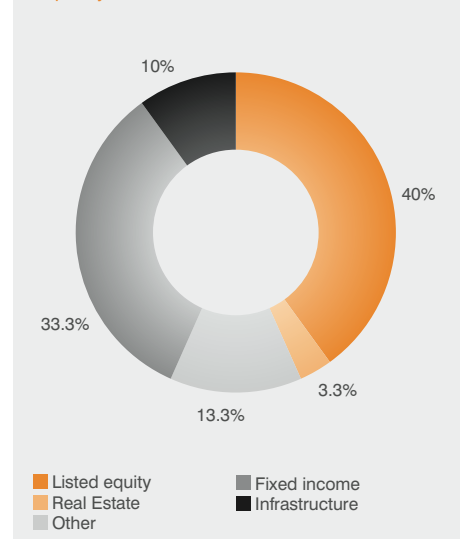
(Fig 1) What percentage of your portfolio is invested domestically?



or more. However, a contrasting view to this was presented at the Symposium and the typical assumption of China being an export-driven economy was put to the test with the notion that its GDP growth is, in fact, driven by investment.

For the growth model to continue, one assumption is that an infinite capacity to consume China's output must exist, and of course the sustainability of such an assumption was questioned. Instead, rebalancing is likely to be required to increase domestic consumption and move away from the reliance on investment driven growth. If true, this would lead to the premise that the high GDP growth rates in China, to which the world has become accustomed over past decades, would be unlikely to continue in the coming decade.

(Fig 2) In which of the following asset classes are you most concerned about capacity constraints?



China's July Real GDP growth levels were revised down by 20 basis points according to the October 2011 Bloomberg composite economic forecast. Analysts are predicting a 1 percent decline by 2013, which is likely to have an indirect impact on equity markets in Australia and the emerging markets. The first signs of a downward trend in growth rates may drive a shift in equity allocations from domestic and emerging markets and towards the developed world, particularly in Europe and the US where stocks markets were trading at lower levels throughout the second half of 2011 due to the sovereign debt crisis.

Currency plays a crucial role in the returns funds are able to generate on their equity investments. A recent survey by National Australia Bank found that the

¹⁵ ASFA Superannuation Statistics, October 2011

“Great opportunity to pick up new ideas and to network with peers.”

Richard Dalidowicz,
*Senior Investment Manager
Australian Super*

“I found the forum very informative and a fantastic chance to broaden my knowledge.”

Michael McCormick,
*Manager Financial Services
ESSSuper*

“A relevant, well run and effective forum for discussing key industry challenges and networking.”

Vic Jokovic,
*Managing Director
Deutsche Bank*

currency strategy a superannuation fund employed was the biggest determinant of fund performance after the asset allocation decision. Discussions at the 2011 forum around the importance of currency hedging decision, decision making frameworks and implementation strategies will be carried forward to the 2012 forum.

Other implementation challenges relating to tax-optimisation, Exchange Traded Funds (ETFs), and the use of synthetics, such as equity swaps were also addressed.

The need for suitable post-retirement solutions was examined in light of highly volatile equity allocations. Important considerations for the post-retirement phase were debated at the Symposium, including: income generation, liquidity and tax. Pre-set risk management, life time annuities, financial engineering in the form of portfolio protection and dynamic life cycle strategies were some of the possible solutions discussed to the dilemmas post-retirement presents funds.

A number of delegates identified Australia's system of dividend imputation, which offers significant tax advantages to domestic investors, as an inhibiting factor to Australian superannuation funds increasing their allocations to global shares. As such, there is an emphasis on maximising after-tax profit through focusing on turnover, deferral strategies and the timing of gains and losses, and also on the importance of measuring tax efficiency and utilising appropriate after-tax benchmarks.

With superannuation funds' portfolios being heavily weighted towards the equities asset class, further consideration of the challenges equity investments present for funds will continually need to be examined.

Synthetic and derivative instruments were reviewed at the 2011 forum. Futures were found to have the highest tracking error but the lowest cost to implement, while swaps were considered the most suitable instrument for portfolio tilting. The use of ETFs by Institutional Investors in the Australian market lags that of the US and the debate for and against the use of these instruments will maintain its relevance as the sophistication, the investment reach and the cost structures continue to evolve.

With superannuation funds' portfolios being heavily weighted towards the equities asset class, further consideration of the challenges equity investments present for funds will continually need to be examined. As such, in 2012 implementation challenges including the

use of benchmarks, tax optimisation, hedging and tail risk protection will form part of the program topics. Additionally the key global trends emerging, as the macro environment unfolds, will be analysed and the resulting key risks and opportunities for equity investors will be sought to be identified.

Advisory committee

Simon Hudson,
Head of Equities, UniSuper

Kent Sutherland
*Head of Equities,
Victorian Funds Management
Corporation*

Scott Tully
*Head of Investments,
Colonial First State*

Jim Christensen
CIO, Telstra Super