

# FUND LEADERS FORUM: CHAIRS

## PART ONE

Wednesday 8 – Friday 10 February 2012

Commences Wednesday evening and concludes Friday late afternoon

## PART TWO

Wednesday 10 October 2012

Commences Wednesday afternoon and concludes Wednesday evening

### LOCATION:

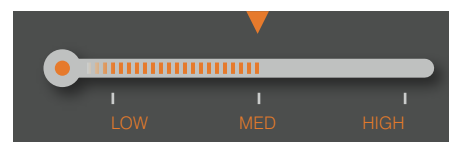
PART ONE,  
YARRA VALLEY, VICTORIA

PART TWO,  
MELBOURNE, VICTORIA

### DEGREE OF FOCUS ON KEY THEMES



### INVESTMENT FOCUS OF FORUM CONTENT



YARRA VALLEY VIC

**The Chairs forum** will facilitate debate and discussion on key challenges and leadership related issues concerning boards, including: strategies, trends, practices and organisational imperatives. The forum provides a unique opportunity for chairs to formulate and exchange views with their peers, to help them best manage and position their boards and funds. Some of the issues to be examined include:

- Evolution of industry regulation and its impact
- Determining the optimal board and governance structure for timely decision making
- Optimising delegation in a fiduciary environment

#### WHO SHOULD ATTEND?

Chairs and chairs-elect of Institutional Investor entities with assets over A\$1 billion

#### ATTENDANCE:

Approximately 25 chairs of superannuation funds and 10 sponsor delegates

Part One

10  
CPE POINTS

Part Two

5  
CPE POINTS

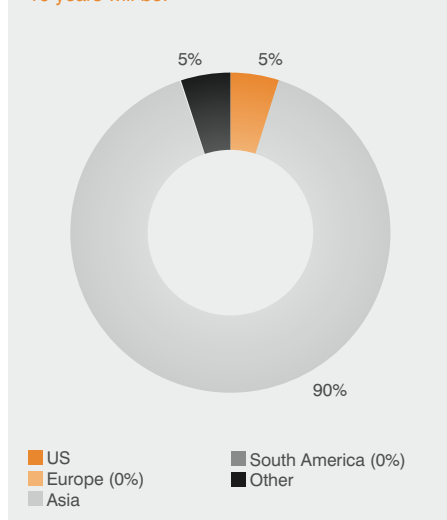
### In 2011 the Chairs forum was conducted in two parts, both of which addressed the changes the superannuation industry is currently undergoing and the key challenges chairmen face.

Whilst much of what has been achieved to date has been lauded, both domestically and abroad, there have been a number of shortcomings relating to the disconnect between stated objectives and industry practices. Recent government reviews have sought to highlight some of these areas, including a renewed focus on risk, member outcomes and the degree of accountability of the trustee's directors. In view of this, the prudent guidance of a fund chair to navigate the many obstacles in store for the industry is of paramount importance.

Part One of the forum was held in February, addressing key issues chairmen of superannuation funds faced. The main aim of the forum being to highlight these issues and to equip delegates with the necessary knowledge to enable them to steer their funds through today's challenging operating environment.

At the time, the sentiment among attendees relating to the prospects for the global economy was optimistic overall. Delegates were convinced, however, that global economic growth over the coming decade will be driven by Asia (Fig 1). Despite this, concerns were voiced that the dynamic environment in which funds operate was causing a significant number of them to lose touch. In the main, regulatory changes being implemented were occurring too rapidly and becoming increasingly complex. As such, many felt they were not sufficiently abreast of the ongoing changes taking place (Fig 2).

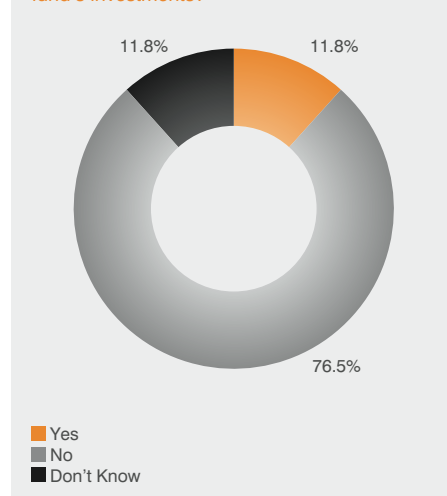
(Fig 1) Do you believe the primary global growth driver over the next 10 years will be:



Though the industry is changing structurally, with consolidation highly prevalent, respondents felt confident that they were well equipped to handle the changes this was bringing to the environment in which they operate. While economies of scale have been the main driver of merger activity, consolidation in itself does not guarantee efficiencies will be achieved, as larger funds become more difficult to manage. This is mainly due to larger funds having a bigger and more diverse membership base, making it more challenging for funds to act in the best interests of all members. Some of the other key issues that larger funds face is managing culture and aligning values of the newly formed entity post-merger.

Further, the alignment of values of the CEO and chairs need to be carefully managed to deliver maximum benefit to fund members. The relationship between the chair and management is also very important to keep a finger on the pulse of what is happening throughout the organisation, but should be in such a way that it does not undermine

(Fig 2) Are you confident that you are sufficiently abreast of global regulatory developments which impact on your fund's investments?



the CEO. Transcending this further, is the importance of mutual respect and a genuine interest in others, which is paramount to the success of a chair. These issues were revisited in Part Two of the Chairs forum held in October 2011.

Peer focus, identified as being highly counterproductive within the industry, is propagated in part through the publication of short term performance outcomes and league tables. The distinction between superannuation funds and corporates appears to be blurring and, rather than a focus on mitigating the most fundamental risk facing members (i.e. lack of sufficient capital to fund their retirement), funds seem to be more concerned with growing their membership base by outperforming other funds. This topic was addressed at the Chairs Part Two forum. However, earlier in the year the point was made that funds ought to be concentrating on setting clear investment objectives and setting asset allocations in line with those objectives. This allows for performance measures to

“A well organised and valuable contribution to critical issues faced by chairs and boards in the industry.”

**Rohan Jeffs,**  
*Director/Rotating Chair  
REST Super*

“The Chairs session provided valuable insights and excellent sign posts for the future.”

**Bruce Hartnett,**  
*Deputy Chairman  
VicSuper*

## There is also a move to increase accountability of trustee directors to ensure a more singular focus on member outcomes, highlighting a greater level of government awareness of some of the core problems facing Australia's superannuation industry.

be implemented, enabling funds to directly measure performance against objectives, thus primarily focusing on attaining the best outcomes for their members rather than competing to grow their membership size.

Part One of the Chairs forum concluded with a look at outsourcing of funds' management to a third party, which has been a prevalent trend within the superannuation fund industry. Outsourcing poses several risks to funds, which may be managed through regular meetings between boards of funds and key outsourcing parties, helping ensure the strategic direction of the fund is on target.

Part Two of the Chairs forum was chaired by Paul Costello, who led the Stronger Super Consultative Group. During the forum Paul shed light on the key areas of focus for the review, primarily relating to the prerequisites to offering a MySuper product. These included the requirement for trustees to be able to clearly articulate what constitutes risk, where the sources of risk are in their portfolios and a realistic target return based on an appropriate level of risk, as determined by the Board. There is also a move to increase accountability of trustee directors to ensure a more singular focus on member outcomes, highlighting a greater level of government awareness of some of the core problems facing Australia's superannuation industry. General consensus at Part Two of the Chairs forum was that this will result in an

increasing pressure on boards and trustees to be trained to a much higher standard. The Stronger Super review also addressed fees, but fortunately not with the sole intent of minimising. Rather, the onus will be on optimising costs incurred and trustees will be required to provide a clear rationale for management and other fees. This is in recognition of the fact that cheaper is not always better, a view shared by delegates.

The impact of media upon the superannuation industry was also addressed at part two of the Chairs forum. Heightened media attention has increased political motives for both industry review and regulatory change. The Cooper review and the subsequent Stronger Super response being prime examples of such. While many industry participants believe these are steps in the right direction for the industry, it has often been the case in the past that extreme mismanagement has been the driver of change. Looking at the outcomes of superannuation management over the last ten years, it would seem that the industry is indeed in line for much firmer guidance going forward.

Another aspect of media and advertising which has contributed to the, at times, singular focus on fees is the years old industry fund campaign, demonstrating the impact of fees on member outcomes. This

is, in CIE's view, another example of the disconnect that exist in the industry given that, as has been often been discussed, net returns are what ultimately matter. As such, the focus should be on optimising rather than minimising cost, a sentiment which was reflected in the Stronger Super response.

Overall, the discussions at Part Two of the Chairs forum touched on a number of key challenges facing the superannuation industry and specifically, chairs. Whilst the structure of the industry is undoubtedly changing, unfortunately CIE sees ongoing evidence of misalignments between the objectives of superannuation with process and measurement metrics. The character and resolve of chairs to steer their boards towards a much more member focused outcome, rather than an excessively peer focussed and competitive mentality currently, is a challenge which CIE is confident chairs of funds today will rise to.

### Advisory committee

**Anne Ward**  
*Chair, Qantas  
Superannuation Ltd*

**David Leggo**  
*Chairman, Telstra Super*

**Tony Hyams**  
*Chairman, Commonwealth  
Superannuation Corporation (CSC)*

**Neil Cochrane**  
*Chairman, Commonwealth Bank  
Officer's Superannuation fund*