STATE SUPER
SAS Trustee Corporation

SuperViews

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From the office of the Employee Representative SAS Trustee Corporation Board

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Corporate Collapses resulting from Executive Greed, Failure of Auditors and Corrupted Sharemarket Analysts – equals Loss of Investor Confidence

Superannuation funds and their members need to take a role in calling for greater scrutiny of corporate governance issues to ensure that confidence and value is re-established in the Corporate World. The STC and FTC Boards have long recognised this, and have formal policies in place as indicated later in this article.

It is no longer acceptable to let the 'managers manage' as evidenced by recent corporate governance failures in the United States of Enron, Xerox, Tyco, Global Crossing and Worldcom. In Australia weaknesses in corporate governance can be attributed to the collapse of HIH, One.tel, Ansett etc.

What is Corporate Governance?

Definitions of corporate governance are as follows:

"At its simplest level corporate governance is the system by which organisations are directed and controlled. However, this definition does not adequately convey the dynamic nature of effective corporate governance. Contemporary corporate governance is a blend of legal, regulatory, board and management practices which interact to ensure long term economic corporate value for shareholders whilst respecting the interests of other stakeholders and the broader community.

The principal characteristics of corporate governance are:

- transparency, i.e. disclosure of relevant financial and operational information and internal processes of management oversight and control.
- protection and enforceability of the rights and prerogatives of all shareholders.
- directors capable of independently approving the corporation's strategy and major business plans and decisions, and of independently hiring management, monitoring management performance and integrity, and replacing management when necessary."

(from a 28 June 2002 speech by John Hall, Chief Executive Officer, Australian Institute of Company Directors).

"It has been argued that when assessing the commitment to good corporate governance of a firm, rather than exclusively focusing on whether the firm is abiding by a set of rules, five characteristics should be looked for:

- Fairness (to shareholders, employees and creditors).
- Transparency.
- Alignment of management and shareholders' interests.
- Compliance with legal requirements.
- Financial performance".

(Lynn Ralph, CEO of Investment & Financial Services Association, from a presentation to the Joint STC/FTC Investment Corporate Governance Sub-Committee 14 March 2001)

How does Corporate Governance affect me as a member?

As can be seen from the above definitions corporate governance is about companies being successfully managed taking into account risk, return and reputation. Our Superannuation Funds have investments in International and Australian companies. Those companies that embrace the principals of good corporate governance will optimise over time the company's operating performance and maximise investment returns to their shareholders (increasing balances in members' accounts).

What are the concerns with Corporate Governance?

At the 2002 conference of the International Corporate Governance Network (of which State Super is a member) the following issues were raised as areas of concern:

- Composition of Boards and the role of independent directors.
- Executive remuneration including stock options which are based on short-term performance – they need to be long term in line with the interests of shareholders.
- Codes of conduct and ethical values need to be observed by the Board and management.
- Investors to focus on corporate governance issues and make themselves heard through shareholder activism.
- Fraudulent accounting practices.
- Ineffective and inefficient monitoring of processes by analysts.
- Conflicts of interest in the accounting and auditing professions.
- Insider trading.
- International accounting standards inadequate.
- Disclosure of performance needs to be transparent.
- Information and communication to shareholders needs to be accurate, adequate and timely.
- Chief Executive Officer needs to show leadership.
- Audit, remuneration and nomination committees of Boards should be composed wholly or predominantly of independent non-executive directors.
- Corporate collapses have led to a drop in investor confidence.
- Companies should act to ensure the owners (shareholders) right to vote.

What has your Superannuation Fund being doing?

The STC and FTC Boards have understood for many years that corporate governance had a role to play when investing in companies in that Trustees have a duty to invest in the best interests of their members. The Boards ensured that their former exclusive investment manager, State Super Investment and Management Corporation, had a documented corporate governance policy. Now that both Boards have multiple managers, it is even more important that policies are documented and implemented correctly.

In 1998 the STC and FTC Boards set up a joint Investment Corporate Governance Sub-Committee. The Sub-Committee established a corporate governance policy, which is contained in its investment strategy and documented in the mandates under which its investment managers operate.

As part of their corporate governance policy, the Boards require their active Australian share managers to declare their voting policies, to vote all proxies, to report on their voting and to present a report to the Sub-Committee from time to time on their internal philosophy and policies on corporate governance. As well managers can be questioned on their voting intentions by the Sub-Committee, before the event on highly sensitive issues and after the event on other issues. Also prospective fund managers are required to outline their approach to corporate governance as part of the manager search process.

The Boards subscribe to the Proxy Advisory Service provided by Corporate Governance International. This service analyses the key governance issues and reports on Australian listed companies and certain listed property trusts selected from the industrials and resources sectors in the ASX 200 index.

Key issues that are currently being focussed on by the Sub-Committee include executive remuneration; the balance between audit and non-audit services carried out for companies by their accountancy firms; dual-listed companies; and the corporate governance services being introduced by a number of fund managers.

You know you need to see a financial planner when …

Many people think they don't need to see a financial planner until they're about to retire. But there are many times throughout our lives when professional financial advice can make a real difference.

Life changing events – both good and bad – may mean changes to your financial situation. So it pays to be aware of some of the times when it's a good idea to consult a financial planner to guide you along the right track to financial security and peace of mind.

You receive a lump sum of money

Selling an investment property, receiving an inheritance or an unexpected windfall can be a time of complex decisions. A financial planner can advise you on tax-effective strategies, and ways to make your money work harder and smarter for you.

Your personal circumstances change

Getting married, buying a home, starting a family, ill-health, or divorce are just some of the key life events when financial planning can become vitally important. A financial plan that is tailored to your individual needs and reviewed on a regular basis as your personal circumstances change can help you achieve your short and long-term financial goals.

Your employment changes

The days of a 'job for life' are long gone. Career change, redundancy and movement between full time, part time and casual work is now part of a normal working life. As your employment changes, your income level and financial needs can change also. So, it's important to have a financial plan in place that takes these ups and downs into account.

Retirement suddenly doesn't seem so far away

There are strategies you can put in place whether you are five, ten or even twenty years away from retirement. Things such as having a will, optimising your contributions to superannuation, and a regular savings plan outside of super will put you on the road to a strong financial future.

How State Super Financial Services can help

State Super Financial Services is one of Australia's leading financial planning organisations with more than $3.4 billion in funds under advice and more than 26,000 clients.

To arrange a cost and obligation free appointment with a State Super Financial Services financial planner in any one of our fourteen offices across NSW and the ACT, call 1800 620 305 or visit our website at www.ssfs.com.au

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Investment Returns for 2001/2002 – What goes up must come down (volatility)

The financial year ended 30 June 2002 has been the worst members have experienced for a very long period in respect to the investment returns achieved by their superannuation fund.

After 15 years of positive returns, the emergence of negative returns places greater emphasis on the management of risk (volatility) and return by the investor. Investment strategies with a higher allocation to equity (share) markets, especially global equity markets, recorded the worst results in 2002. It has been a year in which a higher level of risk was not rewarded with a commensurate positive earnings rate.

Downturn in performance by equity markets followed from the bursting of the Technology bubble with companies earlier in the year reporting that earnings were falling short of expectations and growth forecasts were reviewed downwards.

First Enron collapsed then came September 11, and expectations of other corporate scandals have eroded investor confidence. The Australian share market also suffered with corporate collapses such as HIH and One.Tel. There is currently a fear of further downturn in world growth, which could weaken the earnings outlook and therefore undermine the progress of equity markets. However, conflicting information is likely to characterise the news flow and sentiment may swing from fear to hope and back again resulting in markets remaining volatile for quite some time.

This last year to 30 June 2002 was one where the Australian stock market returned around negative 5% and international stock markets returned negative 23% in Australian dollar terms. Listed property Trusts returned 15%, Property 9% and the defensive asset classes of bonds 7% and cash 5% produced positive returns but were not sufficient to make up for the under-performance from the share markets. Members should also be aware that July 2002 was a negative month so we have not started the New Year well. Some analysts are predicting that we may well be facing some years of low returns.

What were the Investment Returns for the Pooled Fund and First State Super?

Strategy	Audited FSS investment return for year ending 30/6/02	Comparison with average manager for year ending 30/6/02*	Net FSS investment returns for 5 years to 30/6/02	Comparison with average manager for 5 years to 30/6/02*
FIRST STATE SUPER				
High Growth (90% growth assets)	-8.5%	Slightly below	5.8%	Better
Diversified (70% growth assets)	-4.3%	Equal	6.1%	Equal
Balanced (50% growth assets)	-1.1%	Substantially better	6.2%	Substantially better
Capital Guarded (30% growth assets)	1.8%	Substantially better	6.1%	Substantially better
Cash Plus (no growth assets)	5.7%		5.0%	
STATE SUPER				
Pooled Fund (80% growth assets)	-7.3%	Below average	6.2%	Equal

Annual statements

More information will be included in the STC and FSS Annual Report Highlights, which will be posted to you together with your annual statement in September (FTC) and October (STC).

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09/02