

Transcript

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Item: **"SUPERANNUATION: SERVING THE BEST INTERESTS OF
FUND MEMBERS AND THE NATION"**

**GARRY WEAVEN, SPOKESPERSON, INDUSTRY SUPER
NETWORK**

COMPERE: Ladies and Gentlemen, thank you very much, thanks. Welcome to the National Press Club today and today's National Australia Bank address. I'm Maurice Reilly the CEO and I welcome you all. Today's event Chairman will be Ken Randall our President. As you know our speaker's Garry Weaven. I'm sure most people in the room would know Garry Weaven looking around the room. I thank our principal sponsor the National Australia Bank. I welcome Stephen Munchberg who's Head of Government Relations for NAB. Welcome back Stephen. Some housekeeping, I know there are some big deals to be done in superannuation, but I would ask you to turn off your mobile phones during this address - respect to the speaker and the broadcaster and there's a National Press Club fine if it goes off. So, I remind our journalists that the Paul Lyneham awards which is the political gallery Journalist of the Year, those applications close this Friday and I think we'll probably have an opportunity today after we've taken questions from

journalists that if anyone's interested in asking a question of the speaker, would you let me know, or Floor Manager Abby, and we'll see whether it's possible if there's time permitting during the course of today. Okay. So if you are keen to ask a question - George Wright's got his hand up, I don't know why. But we will see what we do to facilitate you. Hope you enjoy it. We're about four minutes away from broadcast so I'd ask Ken Randall and Garry to come up and I'm sure you're going to enjoy today's National Australia Bank Address. Thanks very much.

CHAIR:

Ladies and Gentlemen welcome to the National Press Club and today's National Australia Bank Address to be delivered by Garry Weaven. It's a great pleasure to welcome Garry. He's been a pioneer in the field of industry superannuation and he is now one of its leading players. A lot of people take superannuation for granted these days but it's worth reminding some of our younger audience, both here and on television that as recently as twenty years ago it was a very much restricted benefit usually provided at the employer's expense and very people were aware of it or its implications for future public policy. Gary Weaven helped the Building Industry Unions establish the first industry super fund as far back as 1984 and I think Union based industry funds emerged from the Accords, the Prices Incomes Accords of the Howard and Keating governments which eventually led onto compulsory superannuation. Garry himself is a former Union official and was Assistant Secretary to the ACTU.

He went on to create Industry Funds Services which provided a whole range of finance services to the industry fund movement, including acting as Trustee for Members' Equity Bank which was a very rapidly growing entity at that stage. And with various consolidation of the sector last year, he now serves as Chair of Industry Funds Management as well as being a Director of the Members' Equity Group and also of Pacific Hydro which has been very prominent in the renewable energy field. So, for all those reasons we are very pleased to welcome him today. Please join me in welcoming Garry Weaven.

[Applause]

GARRY WEAVEN:

Thank you very much Ken, and I am indeed honoured to be here today and particularly to be following I see from the guest signature book, following on from the Treasurer and the Shadow Treasurer. So that's a great privilege for me and thank you all for coming as well. It's great to see so well attended particularly by colleagues and former colleagues.

I've titled my address 'Superannuation in the National Interest' because the Australian superannuation system is becoming so significant relative to the Australian economy that with appropriate leadership and policy development it can be harnessed in my submission to really serve the national interest to simultaneously offset any

cost associated with climate change, to create the infrastructure to underwrite Australia's economic, social and environmental future, and to meet the needs of an ageing population, which of course is what it's prime purpose is.

The system has come a long way in a relatively short space of time.

In 1983, when I first began to look at superannuation from a national perspective, the best estimate I could make was that something well short of 15% of the workforce was actually benefiting from occupational superannuation. And that was a function both of coverage, low levels of coverage, but also a very poor scheme design based on individual company funds without any real portability.

The unfairness and inequality of benefit at that time was magnified by the fact that the superannuation system attracted a massive tax incentive at that time. Much more generous, we forget, much more generous tax incentives at that time than any current advantages it might enjoy.

Notwithstanding the incentives however, total superannuation assets at that time, in the early '80s, had not reached the 50 Billion dollar mark.

The ACTU led campaign, as Ken has mentioned, commenced really in earnest in 1984 and it would

by the end of that decade take coverage - occupational superannuation coverage in Australia - to 80% of the workforce and set up the conditions for the Hawke/Keating government to do that historic piece of legislation which phased in the 9% compulsory system.

But equally important, that campaign transformed super into a system whereby the benefits are vested in the name of each individual. And that psychologically as well as actually is one of the most significant and under - sorry - overlooked features of change of that period.

The spread of industry super funds also led the way in terms of creating huge economies of scale through multi-employer trust deed arrangements, a rarity in those days.

The Australian economy currently ranks around number 17 in the world by size of outputs as measured by GDP.

The Australian Stock Exchange ranks around number 8 in the world and - as measured by its market capitalisation value, but the funds management industry in Australia measured by funds under management is normally ranked at either 4 or 5 in the world, and that is almost entirely due to the system of superannuation in this country which is world leading.

Total super assets in Australia have grown by around 11% per annum over the past ten years and by 14% per annum over the past five years.

Having passed now the magic twelve zeros, the magic Trillion dollar mark, total super assets will almost certainly overtake the value of both the Stock Exchange and the annual GDP this year.

I think it's quite conservative to estimate that by the year 2020 total superannuation assets will exceed 4 Trillion dollars.

One of the very few national aggregates which has actually kept pace and held its own against that growth is unfortunately cross foreign debt, which at more than 1.3 Trillion dollars simply underscores the importance of superannuation savings to the health of the national balance sheet.

While many people I think are vaguely aware of that growth in super and see it as a major positive for Australia, the potential significance for the national interest has not as yet, in my view, been fully grasped.

What these aggregates actually mean is that a 1% per annum lift in the net performance of the superannuation industry will add 10 Billion dollars rising to 40 Billion dollars - 40 Billion dollars, each year to the national asset base.

And in an economy that's operating at near full capacity, that's very similar to lifting economic growth by 1% per annum and it becomes increasingly important as the asset base grows. That certainly should be enough to get attention of the most serious and highest levels.

Thus, for example, an improvement of say half a percent per annum in the efficiency with which the funds are collected and administered and a further half a percent per annum in the net investment returns will produce an additional 10 rising to 40 Billion dollars each year, available for investment in our future and for the benefit of our ageing population.

To put that even further into perspective, John Howard and George Bush and some sections of the business community, some remaining sections of the business community, routinely refer to the economic cost of dealing with climate change. And they - they refer to that as a reason for going slow on carbon reduction.

But when the business roundtable on climate change briefed the Allen Consulting Group to estimate the economic cost of achieving a 60% reduction on year 2000 emissions by 2050, their analysis - the Allen Consulting Group analysis showed firstly that the cost of taking early action would be approximately 0.1% of GDP per annum. The cost of taking delayed action would be

approximately 0.3% per annum of GDP. Of course the cost of not taking action could be potentially disastrous.

But what's clearly beyond dispute is the extreme importance of ensuring we maximise performance of the superannuation asset base given its staggering size and this gets relatively little I think, national attention, still.

Broadly speaking, aggregate performance can be enhanced in two ways. Firstly by getting superannuation providers generally to lift performance and secondly by ensuring that the market place works - works in a manner that ensures that contributions tend to flow toward the better performing funds or sectors that both employers and individuals make choices based on performance of funds and the funds flow towards the best performing funds, best performing sectors.

And on that second point, unfortunately our superannuation market, with its total confusion of advisory and sales functions exhibits massive failure.

This is because large numbers of people seeking financial advice are inevitably caught up through financial planners, accountants or other intermediaries in a web of sales commissions and kickbacks and other incentives paid by superannuation providers often in adverse

proportion to the quality of the product in terms of its net benefit to the fund member.

That's particularly a problem for the industry funds sector which typically does not pay sales commissions. But it's also a problem for any fund or segment which might otherwise stand to benefit from a superior track record.

According to data provided by super ratings for the five years to 30th June 2006, the top ten public offer funds in terms of net returns were all industry funds. And yet, according to research carried out by Rainmaker Information, of the top thirty financial advisor groups which account for two-thirds of all financial planners, not one had industry superannuation funds on their approved product list. While every one of them relied mainly on sales commissions for the remuneration.

Writing in *The Age* on 14th of April this year, Alan Kohler suggested the solution to this quagmire of conflicted interest might be to ban sales commissions altogether on super and to put more emphasis on individual advisor's accountability and to ban product providers from also owning advisory networks.

Those measures, if delivered as a package, I think would be welcome by a lot of people, including the industry funds. But experience has demonstrated that it is notoriously difficult to get political focus

on such major issues where so many vested interests are so well represented.

Even so, something must be done urgently.

The immediate past Chairman of the Australian Securities & Investment Commission, Jeffrey Lucey, recently exhorted a conference of financial planners to act in the best interests of their clients. What's fascinating about that is that it was an exhortation, not a directive.

Sadly, the Corporations Act provides only that advisors give appropriate advice. In practice this means that ASIC accepts that advisors recommend products from a limited approved product list. That list is normally negotiated between the advisory practice and the various product providers. The terms are negotiated.

Can anyone imagine it would be acceptable for a doctor to recommend drug B when a more effective drug A is readily available, on the grounds that he or she receives a commission only from the drug B supplier and believes that the drug could have some benefit? Can anyone really think that would be acceptable?

Superannuation fund trustees, the people charged with responsibility for looking after the industry funds and other major superannuation funds, have a well established fiduciary duty to act in the best

interests of fund members. Well - well established in the law.

Almost believably no such legal relationship is yet established for those holding themselves out as financial advisors. This could be easily remedied.

Let me now turn to the issue of harnessing the large investment capability of the superannuation industry to the national interest.

The sheer scale of superannuation assets are relative to the ASX and to the Australian economy foretells an inevitable shift in investment patterns. Fund managers, including the one that I - that I chair, are rapidly establishing overseas' offices and rapidly establishing overseas' investment portfolios in all sorts of asset classes from listed equities through to private equity and infrastructure assets.

Investment allocations to unlisted markets and particularly to offshore investments are expanding rapidly as a percentage of portfolios.

All this offshore investment is not a bad thing for the national interest. After all, earning rents and interest and dividends and capital gains from abroad will act as a counter-balance to the outgoings associated with our burgeoning foreign indebtedness. But what a missed opportunity it'll be if we don't harness at least a good proportion of our world leading superannuation base, to also create

world leading economic, social and environmental infrastructure for this country.

In some cases it's true that government incentives or financial commitments are required to do that because investment benefits sometimes can't or should not be captured by a private investor. Sometimes the horizons are too wide, the beneficiaries are outside the realm of the investor or they are - or they are benefits that the - that only governments would want to capture.

In other cases though, all that is required is government leadership and facilitation. In all cases, projects of national significance require one or more political champions and that is the really scarce commodity in this country and not only in this country.

What I want to establish clearly on the record is that any failure to link our superannuation system to our national infrastructure needs is emphatically not an unwillingness of super funds and their managers to meet the challenge.

The large scale and rapidly growing industry funds, for example, have a, a particularly strong appetite for such infrastructure investment. The growth of these funds, and they are growing very, very rapidly, ensures that they're not liquidity constrained. That is, they do not need a quick turn - a quick turn around of cash. They want great

returns of course. They want balanced portfolios. They want everything from high risk to low risk investments and a range of different returns that correspond to that. But they do not need the cash back. They are liquidity, very positive in cash terms. So they can take a long term view. And they need to accumulate investments across the full range of risk and return profiles. They need to do that in order to maximise the benefits of their members.

Further, engagement of these funds does not require expensive stock market intermediation. Nor is it essential to create a welter of transaction fees. The existence of excessive transaction fees is an example of market failure, not example - an example of the willingness and intent of the parties and certainly not of the willingness and intent of the industry superannuation fund movement.

Numerous business groups have highlighted under-investment in economic infrastructure. Particularly in relation to the transport and logistic tasks of timely supply to export markets as well as the need to remove the chronic uncertainty which is preventing new investment in major power generation. Under investment in telecommunications is also a very topical issue, particularly here in Canberra.

On the social infrastructure front the Treasurer's own intergenerational report which is an important

planning document indicates a major task ahead in relation to health, aged care and educational infrastructure.

On the environment, Australia ranks second in the world for Greenhouse gas output per capita. That requires no other elaboration in my submission.

It may be that our Federal government is edging itself, under extreme political duress, manifested through the polls and through the media - under extreme political duress edging itself painfully slowly towards some sort of carbon emissions trading regime. But will it be too late? Will it be too little? Will it be too late?

What's impossible to understand, except in the context of pandering to narrow vested interest, is the Federal government's abandonment of adherence to any meaningful mandatory renewable energy code. So investment in the renewable energy industry in Australia is currently entirely dependent on schemes in a couple of States. No other investment in renewable energy would occur without those two State schemes.

Because Australia refuses to be part of the Kyoto arrangements, Australian companies like Pacific Hydro that have world leading skills in the creation of carbon credits, one of the very few companies in the world creating those carbon credits in the - in the less developed world, have to do so through

offshore subsidiaries. It cannot do so through the Australian listed company, through the Australian registered company.

Instead of playing catch up, our governments should be leading.

We have, for example, a massive potential for geothermal power based on huge reserves in the north of South Australia which could be connected to the national grid, albeit at a cost. The biggest single issue of course being the fact that that is a long way, north of South Australia, from the major population centres. Not so far away, by the way, from Olympic Dam, but a long way from the major population centres and there will be a one off substantial cost if someone wants to connect that completely renewable source of energy to the national power grid.

If such an example is sought to be too visionary or that the required pay back time might be thought to be too long. I'm not one of those but if that was the considered opinion of those who look carefully at their economics, then let's turn to a more practical and immediate example of market failure and leadership failure in the area of water provision.

I'm going to use Victoria as an example although it's by no means the worst example of water administration.

Something like 70% of total Victorian annual water usage goes to agriculture - goes to irrigation. Approximately 30% of that is lost, wasted mainly due to archaic infrastructure. Not last century, but the century before the infrastructure in many cases.

So while it might be becoming politically correct to shower with a friend so to speak, that's frankly irrelevant to our current water crisis.

I believe that something like twice Melbourne's total annual water usage could be saved in perpetuity by a comprehensive overall of irrigation infrastructure. This could be achieved very economically by focusing on the areas of largest loss. That's channel leakage where it appears that something like 80% of leakage comes from 20% of the channels - it's fixable as long as you know where it is. It comes from outfalls and spillage and from over-supply. All of this can be fixed using world leading Australian based - actually Victorian based, technology.

So for a spend in the order of 1.5 Billion dollars over four or five years, water could be saved at a cost of less than two thousand dollars a megalitre which compares quite favourably even with our currently under-priced water values. On that analysis it might well be that no government funding at all is required if the government chooses not to fund it.

It is however absolutely certain that a strong political champion will be required if that obviously essential project is to be activated in a timely manner.

In the meantime, it does seem to me that it's a national tragedy that Australia's greatest river can no longer, unassisted, open its mouth to the sea.

I've talked about the [indistinct] scale of the superannuation industry and the consequently critical importance of maximising the importance of that industry - maximising performance of that industry.

I've talked about its potential for addressing climate change and for national, or nation building economic and social infrastructure.

Let me just now conclude by linking this to retirement income adequacy and leaning it to - back to the national interest.

We currently have a system based on a mandatory contribution of 9% of wages and salaries. This is augmented by salary sacrifice and other personal top up contributions. Mainly from higher income people. Most actuarial analysis however, has pointed to the need for contributions to be in the range of 12 to 15% to preserve future living standards in a world of declining employment ratios. That is an ageing population world.

As I said earlier, the Treasurer's own inter-generational report points to the funding gap, particularly in relation to future aged care and health costs and those health costs of course are also very substantially a function of age. So the superannuation system is ideally placed to deal with that health issue because it is an age related issue to a large degree. And what a tragedy it'll be in the future, if all of the technology, or medical and scientific breakthroughs in relation to human health, the most basic of human needs, if all of those breakthroughs result in a system where only the very rich can access - can access the fruits of that scientific breakthrough. Where those breakthroughs are denied to the great mass of people through inadequate funding.

At the same time, most economic commentators see our burgeoning foreign debt as the biggest black crowd, mainly because of its potential to force up long term interest rates.

For something like fifteen years now, myself and a number of other people have been advocating that our politicians need to wean themselves off large scale handouts at election time and instead direct surpluses into the long term savings and investment pool through the superannuation accounts of individual Australians.

In this way, electoral largesse would not fuel increased consumption of imports. It would not

fuel a run away trade deficit and the inevitable rise in foreign debt and a [indistinct] threat to interest rates.

In summary, we've got an ideal opportunity to build for a great and world leading future and we should seize it. If our political leaders wish to lead, I'm sure they will find willing and creative partners in the industry superannuation movement.

Thank you very much for listening.

[Applause]

CHAIR: Thank you very much Garry Weaven. We have our usual period of questions. They begin today with Lincoln Wright.

QUESTION: Lincoln Wright, Gary, from *News Limited, Sunday Publications*. Maurice Reilly was just congratulating you on the fact that with the super funds worth more than a Trillion dollars, you're more important than the Treasurer. So, that's worthy of congratulations.

GARRY WEAVEN: Let's not tell him that.

QUESTION CONT'D: I've just - two questions. The first about Northern Trust, the custodian for the Future Fund. Was it absolutely necessary to appoint an American company to do this? Could an Australian company

have done that? Secondly, what is the process by which the super - super industry would help government? Would they, for example, lend money to Kevin Rudd's government to fund his broadband initiative?

GARRY WEAVEN:

Well firstly, I can't comment on the business requirements of the Future Fund. All I can say is this. That industry super funds by and large use Australian based custodians for their purposes. Now whether the Future Fund has different needs, I wouldn't know. But - so there are Australian based custodians and whether they can do the job, they should answer for themselves. The bigger - I think the bigger issue really is in it for the Future Fund is that its purpose ostensibly was to look after the long term liabilities in relation to public servants' superannuation requirements and so you know, one would have thought if that was the case the money would have been put into the public servants' superannuation fund ARIA and given that it hasn't been - I mean there may well be good reasons for that. But now that it has been established that the Future Fund's big challenge is not over who does the custody - which is now I think a relatively boring end of the business - but it is - the real challenge is they now have a performance requirement. They will need to beat the performance of ARIA or otherwise they'll be seen as a massive failure in my view. On the, on the other question, I think there are a variety of ways - you know I made the point that industry funds in particular, they're very large, very, a very strong

cash flow into the funds and they need a range of investments from, from debt through to equity, and within equity at the, you know boring and relatively low risk and relatively low return and through to the very high return with higher risk end. And the way they perform so well year in, year out, is of course by a blend of those risk and return investments. So what the - what the industry super movement would be keen to do, and it's always been keen to do to the best of its ability, would be to see if it can partner with governments, State or Federal, or local for that matter, in - in either equity or, or debt deals. Now by and large the appetite is for equity because the funds are about taking an appropriate degree of risk and getting you know, maximising the returns for their members. So that the bulk of the - the bulk of the appetite would be for equity deals. That does not mean for example you need to own water assets, although we do as a company owns certain water assets in New South Wales for example. But you do not need to own the water assets. You could, but you don't need to if it's politically not acceptable. What you can - what you can do is own a project and be paid by results for the water saved over the life of that project which might be thirty or forty years. There's no hurry, patient investors, but we need to do it in the national infrastructure interest and we need to do it for our long term benefit of our members.

CHAIR:

Next question's from Tim Colebatch.

QUESTION:

Tim Colebatch of *The Age*, Garry. I've actually got a lot of questions Mr President, if I could just ask two now perhaps and you can come back to me if you feel it's worth it. But coming to your main point of the speech when you were talking about financial planners not being subject to any legislative requirement to act in client's interests. Can you explain a little more to people why it is that the politicians are so reluctant to take on what seems - would seem to be a pretty obvious step and you've got two alternative governments - what response are you getting from each of them on that issue? Perhaps ask that one first.

GARRY WEAVEN:

Well what - I think you've put it a little more strongly than I did. I didn't say there was no requirement at all to act in the, in the interests of their clients. What I said is a stop short of requiring them to act in the client's best interest as their first requirement. They are required to give appropriate advice. And I think - look in fairness I think what, what politicians have done and regulating authorities have done is play catch up in relation to this incredibly moving scenario of - which has become this massive interest in superannuation through, through our universal system. So, they've had to introduce regulation about what was already existing which was a system based on commissions for selling life insurance, for selling super, for selling all sorts of financial products. And so they've tacked on all sorts of regulatory hurdles for people to jump through on the assumption that commission selling is an essential part of the

system. And why do they continue with that assumption? Why don't they abolish commissions? Why did even I say I think Alan Kohler was reaching a bit high in expecting that to happen. Well I just think that the biggest institutions in this country are fundamentally dependent for their net revenue on the commission selling system. So it is embedded and entrenched in the financial services industry supported by major banks and other financial institutions. And it is also supported by thousands and thousands, tens and tens of thousands of very articulate planners and accountants who of course populate the golf course, the golf clubs and the rotary clubs and the Liberal Party branches and everywhere else in the society, and so they should, it's part of their business and so I think it's very, very hard and requires great courage to turn that around. So what we're sort of recommending is a, is a first shot in the direction of good practice and that's just - let's have a basic requirement to act in the best interest. We think that there is a large part of the financial advisory industry that would welcome it. We think there are a lot of planners and accountants who would love to have the rules prescribe decent professional behaviour, so that they could compete, they could carry out their behaviour in a decent professional way and still compete.

CHAIR: Part two Tim.

QUESTION CONT'D: Alright, well, I'm still interested to know what the parties, what the alternative government is saying

about this to you. But perhaps you can answer that in the context of the second question which is that as Ken mentioned, you were a very long time ago the ACTU and some of us still remember that and so you've been a pillar of unionism and now you're a pillar of capitalism and it gives you a unique prospective on the industrial relations debate which is dominating Federal politics these days. And I just wonder in the context of Labor trying to craft its alternative to Workchoices, what advice would you give Kevin Rudd on this issue? Is - is there a baby there that he has to be careful not to throw out with the bath water?

GARRY WEAVEN:

I, I retired from the Assistant Secretary job of the ACTU 1990, that's seventeen years ago - that's seventeen years. And you know after seventeen years you actually earn the right not to comment on industrial relations.

[Applause]

CHAIR:

David Uren.

QUESTION:

David Uren from *The Australian* newspaper. I think for the first time and one of my attendances at one of these functions the question I was proposing to ask was asked by my predecessor but I would like still to sort of get that point that he was grasping for which is do you have any sense that Labor would deal with this question of the lack of clear fiduciary duty on the part of financial planners

more thoroughly than has been the case of the current government? And also I guess pursuing my predecessor a second question. Financial markets have been doing absolutely extraordinarily over the - over the last year or so and a major part of that has seemed to be the flow of investment funds into the market. Is super getting to a point in Australian markets at least where there is now too much money chasing too few investible assets?

GARRY WEAVERN:

Okay. Well look on the - since you - this is the third go at getting me to answer the first question. So, I'll do my best. I think - the current government, you must remember, the current government opposed the superannuation guarantee charge until shortly before the '96 election and for all of those years of industry fund growth it railed against what we were about. And so it hasn't been easy for that government to turn itself around and become a relative supporter of superannuation which I accept it is, it is today and the - you know we can quibble with the detail of the Treasurer's moves and who the benefits are going to, but clearly the Treasurer has been keen to position himself and his government as being pro-super. There are still vestiges, we detect, in Parliamentary inquiries, the terms of reference thereof and in the behaviour and vernacular of certain individuals within the Liberal Party in particular, there are vestiges of opposition to the great advances that industry funds have made. And so, from that point of view we expect it will be a far less hostile environment if Labor wins. It's not hostile I must say, it's the hostility is almost dead

but we think it will be more, it will recognise better the real contribution that the industry funds have made and therefore there'll be a willingness to listen. We don't expect any more than to be listed to.

CHAIR: The other one was about financial market reforms.

GARRY WEAVEN: In respect of the financial markets, I think the answer to that David is no because the world is a big place. I mean, I don't think there is a difficulty in the money finding investible assets. I think there is ultimately a whole under-developed world which hopefully, if this boom is sustained long enough will benefit enormously from that period of sustained growth and growth in asset creation in the - in the advanced world and particularly in Australia which is as I said punching well above its weight. So I don't think there's going to be any shortage of investible assets. My lament if you like is that we couldn't actually accommodate a little more of those assets into making this country an absolute world leader in economic and environmental terms and social terms for the future.

CHAIR: Gary, could I just take that last question a little bit further. There is a perception that there's so much money, not just from the Australian superannuation industry but from pension funds worldwide, sloshing around the world that inevitably a lot of it will finish up in private equity activity and in fact the Australian industry funds were at one stage

linked to the Qantas takeover bid because of a perception that it had to go somewhere and that was one of it. What do you think about that and what would be the effect of taking significant and growing numbers of companies off the listed boards?

GARRY WEAVERN:

Well first of all if you heard the only very brief public comment I ever made about Qantas you'd know that there's very little association with the funds that I'm principally associated with in terms of that bid. But more generally, I think most of the private equity buy out activity at the moment is certainly not financed by Australian super funds. There may be you know rare examples and there might be a little bit of money through, you know, global private equity funds where a little bit comes back and it gets involved in some of those deals. By and large Australian money has not been - Australian super fund money has not been, either on the debt or equity side. But that's not to say it won't in the future. And I think the real import of your question is, isn't it inevitable that Australian superannuation funds will be in a position and will need to look at private equity activity including buyouts. And I think the simple answer to that is yes and they will do so on the basis of you know what is in the best interests of their members and if listed - if the managements of listed companies can lift their games and achieve the benefits which they ought to be able to without being bought out, then they should do so and we're very happy with that and if not then I think those managements will be

bought out. If in the end the costs associated with share market intermediation turn out to be more than it's worth, then the share market itself will decline in - it won't decline in absolute terms, it'll grow, but it may decline in absolute - in relative terms.

CHAIR: Thank you. The next question's from Bina Brown.

QUESTION: Bina Brown from *The Australian*, Garry. The strength of industry funds is in the wholesale fee structure. I'm wondering if you - in the gentle trend to advise - providing better advice to what is supposed to be a simpler system, will that effect the fee structure in any way?

GARRY WEAVEN: Well I don't think so. I mean I think we all have to strive to enable people to receive good advice. But most good advice doesn't require product selling, you know, and so a lot of advice can be provided on mass. A lot of the basic advice about asset allocation decisions, you know whether you should be more in shares or more in - it can be provided in a more general way. And certainly interaction, for the great majority of our people, what they need is advice about how they interact on retirement with the social security system and the tax system and that you know can, to a large degree, be provided generically. Now I accept that personal advice is an important area and it will need to be paid for. All I think we say is that if we can move towards a world where that's recognised and accepted and people

provide advice and get paid the value of that advice, not some crazy Commission that lasts the entire life of the fund that goes on trailing through that person's growing superannuation corpus of money, over their entire working life, eating away at those funds year in year out in order to build a, an annuity stream for some financial planning business or to deliver sales to a commercially operated master trust. That's what's wrong with the system. Not [indistinct] for advice. I think scale, if handled properly, will see the industry funds get more and more efficient as time goes by.

CHAIR:

Laurie Wilson.

QUESTION:

Laurie Wilson, Garry, Freelance Journalist and a Director of the National Press Club. I've got two questions. First of all, do you see that sort of public/private partnership approach is really the only logical way to go down the path of infrastructure investment? And the second one in a sense I'm going to try to get you talk at least indirectly about industrial relations. The, the business sector generally has reacted quite negatively to ... other aspects of potential Labor policy, or Labor policy under a potential future Labor government. The argument being of course that will feed into the bottom line, reduce profits which impacts on share price and obviously impacts on dividend flow etc. As a funds manager when you're considering those sorts of issues associated with a possible change of government, I mean, what's your reaction to that sort of view?

GARRY WEAVEN:

Well you've got to remember that some sections of the business, very similar sections by the way, of the business community also reacted with great hostility and still do to climate change action. And they see that only as a cost as well. And so, you know I think that - I think the appropriate approach from an investor's point of view is to look at well managed companies. The most important thing you can look at is the management of a company. Obviously it's got to be in the right sector, but the management of the company. And so I think we would continue to look at the total management package. And I think now we can all blind sided and derailed by focusing on one relatively minor issue and it becomes the issue of the day, it catches all of the headlines, all of the time of our Parliamentarians and often it is not the main issue. So I'm confident that the interaction of democracy and the Parliamentary process will sort out an appropriate response on all of that but as an investor, I can't say that I know of any example, any example, where we've had to have a capital strike because a company is being a beneficent employer.

CHAIR:

Public/private partnerships?

GARRY WEAVEN:

Public/private partnerships. I think that depends on the size of the vision. You know, if you have a very small vision, you don't need public/private partnerships because governments can do whatever they like off their own balance sheet and still have a surplus. If you have a vision worthy of the nation of Australia, a vision worthy of our asset base in

super, if you have that sort of a vision, then yes it is inevitable that you should have public/private partnerships to realise part of that vision.

CHAIR: Maurice Reilly.

QUESTION: Maurice Reilly from the Club. Garry, I'm wondering about ethical investments and the policies that perhaps super funds might take. There was an issue here earlier in the year with the ACT government where there was criticisms about investing in the tobacco industries. I'm wondering going forward whether you think there's a role for super funds to be activists about, well, ALP policies in the future if they get to government such as uranium mining, nuclear power, genetic modified crops and so it goes on. How are you going to manage that, that ethical wrangle that must come up from your members at the end of the day? So I'd be interested in what your policies are.

GARRY WEAVERN: Yes. Thanks for that question. I think, I think industry funds, above anyone else, are likely to be very rational about their approach to corporate governance and the reason for that's very simple when you think about it. The Boards of industry funds are made up of representatives of employer associations and typically of employees or of their unions. So they're a very balanced Board and quite wary of any agendas that might be out of kilter. So they, they actually operate on the basis of consensus. They need in most cases, two-third

majorities to make decisions. So consensus is what is absolutely fundamental to the operation of industry funds. That means they are very likely to take the middle social ground on these issues. They are very likely to be in that part of society which looks at these issues critically and if it feels so moved to do, then certainly tries to influence both policies of both Parties, whoever the Parties are and also the policies of major corporations. And I think they ought to do that. I think that corporate ownership by the people of Australia is a growing part of their - of people's lives. Government is less and less a part of people's lives. Companies are a bigger and bigger part and if, if people don't intervene as shareholders, then they're, they're really derelict in their, in their duties. I think industry funds are likely to be a very, very rational and on balance mildly progressive force in corporate governance.

CHAIR: Next question's from Alan Dixon, on your left there, Garry.

QUESTION: Hi. Alan Dixon from Dixon Advisory. We're a fee for service financial planner and the medical profession was raised. So I've got two questions, one's about that and the second's a technical question. The first one being that we talk about our doctors who are very highly paid, our best and brightest and the best drugs, but that requires a significant funding of both Medicare and the PBS. So does the government need to subsidise and fund that industry because the public quite frankly won't

pay the cost of most drugs and perhaps therefore the cost of a fee for service financial plan? And the second question, obviously industry funds have done a great job for those members in the accumulation section, but since July 2005 there's been transition retirement pensions and from 1 July this year, if you're over sixty your pension is tax free and your fund no longer pays tax, what is the industry funds going to do for its members to almost force those people over sixty to go into a pension phase 'cause our analysis suggests that 99.5% of people over sixty are better off in a pension than accumulation and the MER effect is equivalent of about 2% per year?

GARRY WEAVEN:

That's, that's a great question which I think I'll direct to our financial planning organisation to answer you on. But I think, I think - you know I think there is some case, I think there is some case for government - general government support for education to include education on financial planning about people's superannuation. I think there is a reasonable case for that. And a worthwhile - worthwhile thing to do. And we, as I said before, we are strongly in favour, and strongly support and would like to promote those financial organisation - financial planning organisations that are true fee for service.

CHAIR:

Do you want to do the technical one or have you referred it to your advisers?

GARRY WEAVEN: I'm not going to deal with the technical one other than say it's a good example of why there are many, many occasions when people do need to get financial advice.

CHAIR: Absolutely. Lincoln Wright again.

QUESTION: Gary, Lincoln Wright again from *News Limited*. In a way your speech today is a very political speech - you say superannuation and the national interest. And you talk about partnership with government. I'm just wondering have you approached the Labor Party, the Federal Labor Party - has your industry approach the Federal Labor Party with ideas for funding these schemes, these national interest schemes? And secondly, which private equity partners on the capitalist side of the ledger have you been talking to around the world in terms of furthering your investments?

GARRY WEAVEN: Well, to date, we've had really very little what you would call nitty gritty discussion with either of the major Parties on actual, on actual programmes. And the reason for that primarily is because we haven't been able to detect that either of the major parties are ready to engage about that sort of discussion. So the Labor Party has been as you know wrestling for some years with this idea of whether or not it was naughty to have private money involved in certain infrastructure programmes. Well I think that was - that's a ridiculous debate. I think largely they're past it now

in most States and certainly Federally, but they had to go through that process. And on the other side of politics in the Federal government, there just doesn't seem to be any, any notion that governments need to create nations, need to be involved in nation building projects. So there's not really been that opportunity. But believe me we will take every opportunity we can to put forward ideas and we've got plenty of - plenty of ideas. So that will be the - that will be the approach that we'll take. I'm sorry?

CHAIR: Private equity.

GARRY WEAVEN: Yes well in private equity, what we've generally - we're a private equity manager. Most of the private equity money that we - that is industry funds management, on behalf of funds, we don't manage funds money on behalf of individuals but on behalf of industry super funds and we almost - overwhelmingly invest through fund to fund arrangements. That is we have a strong belief in finding the best private equity managers locally and around the world and putting them into the appropriate package of risk and return, different sectors, buy out, debenture, and so on and putting together those packages because we see that it's a very, very good area for, for superior returns, but it's also an area of a trap for young players and, and you need to create very balanced portfolios. So we've talked to nearly all the major private equity players in the world and I'm happy to provide a list of those that are currently managing the various funds that we manage.

- CHAIR: Tim Colebatch.
- QUESTION: Well I just can't resist following up immediately and saying you have been quoted as saying that the private equity boom is likely to end in tears or may end in tears, so.
- GARRY WEAVEN: I said may end in tears.
- QUESTION CONT'D: Yeah, perhaps you could sort of elaborate on why that might be and what risks you face. But I also wanted to ask about affordable housing. I know that the funds are looking for a way of getting into this and I was wondering given the shortage of affordable housing and there's, there's not actually a great deal of housing construction going on in Australia in recent times? What's the potential you see for your funds to come up with, to be part of, of a solution which can actually sort of bring housing back into the reach, affordability of the average Union member for example?
- GARRY WEAVEN: Okay. Well first of all on private equity, there's two main - as I see it in a, obviously simplification, I apologise for the financial journalists in the room for the simplification, but there's two main motivations as I see it. One is that currently there is an historically low relationship between absolute interest rates and anticipated rate of return of equity. Anticipated rate of return of corporate activity and that historically low, absolute interest rate, it's actually not low in real terms, but inflation's low,

absolute interest rates low, means that there are plenty opportunities to create value out of just gearing, taking a little more risk than certain companies have done and so that is motivating a large part of the private equity boom. And the second is that the private equity managers actually believe they can manage better. If they can manage better it won't end in tears and I think some of them perhaps can, certainly [indistinct] some of our great public companies, you know Donald Duck could manage better, but in a lot of cases they won't be able to manage better. In terms of the basic fundamentals of the relationship between interest rates and anticipated earnings, that won't last forever. I mean I think it may last quite a reasonable amount of time, but it won't last forever. It requires for example you know, the continued willingness of China and the petro - and the petro dollar countries to keep funding US deficits for example. So if, if at some point in time, you know, those governments decide either through democratic needs of their own population that they need to really put money into their infrastructure, their own welfare, and build their own welfare in their own countries and stop buying bonds, then that is going to create real pressures in those, in those money markets and when that happens, the companies that have been built purely on financial engineering are going to collapse. So, that's why, I think, you know our regulators keep a close look at it. It's not, you know, it's a question Bernie Fraser could answer better than me actually so you can talk to him afterwards. But, but - I don't think it's at crisis

levels now from my reading. I think there is pretty of strong growth left but I do think that all those cycles and relationships change ultimately. And they change for a variety of geo-political as well as economic reasons. So you know, if you're, if you're simply about exploiting financial engineering I think it is not a long term viable strategy. It's not part of our long term strategy.

CHAIR:

Do you want to talk about affordable housing or?

GARRY WEAVEN:

Affordable housing I think is, you know, it's one of those things that, that politicians cause seminars about. You know, you have a lot of seminars. And the reason for that fundamentally is when you think about it, to fix the problem of people who actually can't afford houses, I mean people that really can't afford houses, that is a huge percentage of the, of the population, requires absolutely massive investment. So, it's better to think of a gimmick and have a seminar and have a headline than actually put money, real money into it, because it's a bottomless pit. The amount of money required to fix it is huge. So, all you can really do is I think is, is try and operate at the margin to make it somewhat more affordable for those who are not far off being - having it affordable and governments really have to look after the public housing market. So let's separate those issues. On the issue of lower income people just below the affordability level, there are a variety of models including shared equity, and there are some more innovative models which we are keen to, which we are exploring closely and we

would love to find the magic answer. We think we may have found some answers and you can watch this space.

CHAIR: Garry, thank you very much.

GARRY WEAVEN: Thank you.

[Applause]

CHAIR: Stay there. We'd, we would very much like to give you a memento of the occasion which is in the box and a membership for the next twelve months so that you might be more attracted to come back.

GARRY WEAVEN: Great. Thank you very much.

[Applause]

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