



FUNDS SA

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MINISTER'S OFFICE

24 JUL 2014

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21 July 2014

Hon Tom Koutsantonis MP
Minister for Finance
GPO Box 2832
ADELAIDE SA 5001

Dear Minister,

Re: South Australian government boards and committees reform

I am writing in response to the letter sent by the Premier dated the 8 July 2014 which invited the Funds SA Board to liaise with you as our Minister in considering whether the functions of the board require a separate board, could be merged with another or if its functions could be carried out in an alternative way.

This letter seeks your support in recommending to the Premier that the Funds SA Board be exempt from being abolished and should remain as is. This recommendation is based on the following reasoning:

- The Funds SA Board performs an essential role which cannot be met through other means.
- The Funds SA Board is cost effective as it replaces the need for specialist investment committees within the organisations we manage money for.
- The current model is working well with significant value being added.

Each of these reasons is expanded further below.

The Funds SA Board performs an essential role which cannot be met through other means.

1. The Funds SA Board is responsible for the governance of the management of \$23.8 billion of public funds.
2. Commonwealth superannuation legislation requires that the management of superannuation investment funds is governed by an independent trustee. While as a Crown fund we are outside of this Commonwealth regulatory regime, the State has agreed to comply with the key elements of the regime through the Heads of Government Agreement (HOGA).

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- a. A revised HOGA was signed in early 2014 formalising the exemption of certain public sector superannuation schemes from the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation (Resolution of Complaints) Act 1993*. The revised HOGA was signed by the Assistant Treasurer of the Commonwealth of Australia and the Premier of South Australia.
3. The Funds SA Act enshrines the independence of the Board. It ensures that investment decision making is not subject to political objectives yet provides the opportunity for the Minister to impart his views through the Performance Plan process.
4. Pursuant to the HOGA and related superannuation legislation, the Funds SA Board assumes various 'trustee' responsibilities to which a board and its committees are considered fundamental.
5. In order to continue to comply with the principles underlying the HOGA, it is important to be able to demonstrate the separation of the fiduciary responsibilities associated with the investment approval and oversight of both Government and member superannuation funds, and other government operations and competing priorities.
6. In this regard, in addition to the independence from government, all of the superannuation members of the Funds SA Board are non-executive independent members which results in an additional level of separation from government. Further, there are two members of the Board directly representing the interests of superannuation scheme members: one Board member elected by members and one Board member appointed by the Governor on the nomination of the South Australian Government Superannuation Federation.

The Funds SA Board is cost effective as it replaces the need for specialist investment committees for the organisations we manage money for.

1. Funds SA performs the function of a centralised 'investment manager' for the government. The Funds SA Board currently provides a specialist investment committee function on behalf of each organisation we manage money for, including:
 - Super SA schemes
 - Police Super scheme
 - Parliamentary Superannuation scheme
 - SA Ambulance Service Superannuation scheme
 - Super SA Select scheme
 - South Australian Metropolitan Fire Services Superannuation fund
 - South Australian Government Financing Authority
 - Motor Accident Commission
 - Lifetime Support Authority, and
 - Adelaide Cemeteries Authority.

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Without the Funds SA Board, the investment management function would have to be performed by investment committees of each of the above organisations, representing a duplication of function and skill.

2. The Funds SA Board brings rigour, objectivity, consistency and focus in undertaking the fiduciary and 'trustee' responsibilities associated with the investment oversight of \$23.8 billion of both Government and member superannuation funds.
3. The Funds SA Board brings significant deep independent experience and expertise, including member representation and combined experience in the following key sectors:
 - Funds management 132 years
 - Insurance 124 years
 - Superannuation 103 years
 - Banking 81 years.
4. There would be a higher cost associated with seeking specialist independent advice through consultants providing direct advice to the Minister compared to the cost of maintaining the highly effective Funds SA Board.
5. Expenses associated with the Funds SA Board are low. For the 2013 – 2014 financial year, expenses associated with the Board were \$503,056, representing 0.002% of funds managed.
6. This specialist investment committee function provided by the Funds SA Board could be expanded should the government seek, similar to other States and as noted within the Statutory Authorities Review Committee's 58th report (dated January 2014), to further centralise its investment management.

The current model is working well with significant value being added.

1. Funds SA's performance has been outstanding. The flagship Balanced and Growth (tax exempt) funds returned 13.8% and 14.9% respectively for the year to 30 June 2014 and for the 10 years ending 30 June returns achieved are 7.4% p.a. and 7.5% respectively for the Balanced and Growth funds. These returns are both above benchmark and in line with or above other superannuation funds, with costs below the industry average. Attachment 1 provides Funds SA's performance across each of the investment options.
2. A change in arrangements could affect performance and would be destabilising to the investment strategy setting and related decision making processes whereby the Board takes responsibility for asset allocation and manager decisions.



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3. Funds SA's Board functions in a highly effective way. Funds SA's Corporate Governance Policy sets out the Board's functions. The Corporate Governance Policy is premised on the Australian Securities Exchange Corporate Governance Principles and Recommendations. Consistent with these Principles and Recommendations, the Board undertakes an annual self-evaluation which consistently provides evidence of the cohesiveness of the Board in taking on its duties. (refer Attachment 3) In addition, the Board has a Code of Ethics which sets out how the Board is to discharge its fiduciary responsibilities.
4. The rigour and transparency of the investment governance process is forgone without a Board. Board meetings provide the forum at which decision papers, delegations, policies etc. are tabled, considered, and discussions and decisions minuted.

I hope the information provided is useful to your Ministerial decision making process. Please contact me on [REDACTED] if I can provide any additional assistance in preparing the arguments to support the maintenance of the current Funds SA Board arrangement.

Kind regards

Yours sincerely

Dr Helen Nugent AO
Chairman

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ATTACHMENT 1

Funds SA Investment Performance

Funds SA multi-sector (tax-exempt) funds, investment returns to 30 June 2014
 Returns net of fees

	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Cash	2.8	3.7	4.0	4.5	5.0
Capital Defensive ¹	8.0	7.6	8.2	5.8	n.a.
Conservative	10.3	8.9	9.5	5.1	7.2
Moderate ¹	12.1	9.5	10.1	4.4	n.a.
Balanced	13.8	10.4	11.0	3.7	7.4
Growth	14.9	10.9	11.3	3.2	7.5
High Growth	16.1	11.4	11.9	2.8	7.6
Socially Responsible ¹	13.3	10.3	9.7	n.a.	n.a.

¹ Data not available for certain time periods as the funds do not have the relevant history.