

## SUPERANNUATION

### Asian opportunities catch eye of Aussie pension fund

*Hostplus targets property development market*

By David Macfarlane

Australians are losing faith in superannuation as a way of saving, disheartened by the global financial and economic crisis that is eating away at fund balances.

Mercer's Superannuation Sentiment Index Study in February found the number of working Australians very or extremely worried about the impact of share market volatility on their superannuation rose from 11% to 21% in the last six months of 2008 while the number of people rating superannuation as a poor or fair way to save for retirement doubled from 17% to 34% in the same period.

Demand for knowledge also soared. While only 16% of those surveyed rated their current knowledge of super as strong or sophisticated, 54% want to achieve such a level of knowledge.

Mercer's outsourcing business leader for Asia-Pacific, David Anderson, said the good news is that many Australians – some for the first time – want to know more about their super. However, their interest is likely to be driven by concern – 58% of working Australians expect to be less comfortable in retirement than they are now.

As a result of the financial crisis, many super fund members have stopped salary sacrificing into super because of falling returns and job uncertainty, with voluntary contributions plunging by about 50% during the past year. The government's super co-contribution is holding up, however, according to an article that appeared on Aussie news-site *WAtoday* on May 5 entitled "Co-contribution is still the brightest light".

This scheme for low- and middle-income earners matches each dollar of after-tax income contributed by members to super with A\$1.50 (US\$1.23) – an immediate return of 150%. The maximum contribution a member can make in the financial year is A\$1000. The government's contribution

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starts phasing out once total income reaches A\$30,342 a year and cuts out altogether at A\$60,342.

"Our voluntary member contributions have halved but the government co-contribution remains pretty much the level that it was eight months ago," says the CEO of industry fund Hostplus, David Elia. "What that says to me is that those who can claim the government co-contribution have continued to do so; others are switching extra funds into repaying their home loans or reducing gearing or other debt."

Hostplus is the industry superannuation fund for the hospitality, tourism, recreation and sport industries. With over 920,000 members and 54,000 employers, it is one of Australia's largest super funds. The fund had AUM of A\$6.4 billion as at March 31, 2009.

Making a co-contribution is easy, according to the article. Some members set up a direct debit from their bank account to drip feed the money into their superannuation account, while others make a lump-sum contribution just before the end of the financial year.

Hostplus's Mr. Elia says the 150% return means those with low account balances who have kept up their co-contributions would have more than recouped their investment losses of the past two years. He says members worried by the volatility in investment markets could consider making the contribution into their fund's cash option, where there is

capital protection, while collecting the A\$1500.

According to a Reuters report on June 1, Hostplus has turned its attention to property development projects in Asia in the belief that the fund can capture future growth when financial stability resumes. It has already made investments in projects in Singapore and is considering others elsewhere in Asia, betting that developments rather than fully-leased properties will give it an advantage when demand for offices and retail space picks up.

"In Malaysia, we are looking at a retail opportunity with one of our investment partners. We have a number of opportunities that are presenting themselves in Japan in the commercial sense in the industrial area," Mr. Elia said.

According to Mr. Elia, Hostplus is looking to achieve a 12-15% internal rate of return for property development projects; he also claimed that the worst may be over for Singapore's economy. "It's probably the first country that's probably been hardest hit in terms of the Asian region. We suspect that it's probably the first country to come out of it as well," he said.

Hostplus had to write down some of its assets because Australian pension funds have been hit hard by writedowns on unlisted property holdings as property value continues to drop, explained Mr. Elia said. The fund allocates 18% of its funds to property, 4% of which is in overseas markets.

"Because we have strong liquidity coming in, it does put us in a privileged position to negotiate tremendous outcomes. There are fantastic opportunities for our members to go forward," he said. "It is a competitive market out there, and we understand our members can choose to leave at any time. We want to make that difficult for them, and we do that by trying to give them the best possible experience." ■

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