

No escape for LPTs from credit crisis

{ WOUTER KLIJN

The share prices of Australian listed property trusts (LPT) have dropped as investors question their ability to service the high debts they have accumulated over the years.

Since November 2007, LPTs as a group had underperformed the ASX 200 Index, the Reserve Bank of Australia (RBA) said in its Financial Stability Review published last week.

“As with many investors around the globe, domestic LPT managers responded to the favourable macroeconomic and financial conditions over recent years by increasing leverage,” the central bank said.

“Reflecting this, the average debt-to-equity ratio on LPTs has increased, rising from around 50 per cent in 2000 to around 70 per cent currently.”

The tightening of credit requirements and the increased cost of debt has had a negative effect on trust share prices.

“Since November 2007, LPTs have underperformed the broader equity market, with the LPT index falling by 36 per cent, compared with a 25 per cent decline in the ASX 200,” the RBA said.

The decline has been largest for trusts that invest in the industrial and diversified sectors and for the most heavily-g geared trusts.

Apart from concerns over adequate funding, the share prices of trusts were also affected by lower profit forecasts, with rental income growth expected to slow and rental yields expected to rise as risk is repriced.

Concerns about exposure to markets with deteriorating economic outlooks have also weighed on some LPTs. ✱

Trustee system needs examination

{ ALICE URIBE

The trustee system needs to be overhauled because of the size and sophistication of industry superannuation funds, according to a former industry fund chief executive.

“The Government needs to have a good, hard look at the whole trustee system. More and more the interests of the members somehow tend to get lost or downgraded through the processes that the funds are required to employ to achieve their investment results,” former AvSuper chief executive Denis Carroll said.

The current Pengana Capital head of distribution said the structure set up in the early 1990s through the Superannuation Industry (Supervision) (SIS) Act was no longer appropriate for what funds were expected to do today.

“The designation of responsibility as it exists under

SIS or the fact that the trustee has the ultimate responsibility is no longer suitable for the complex investment decisions that funds are now involved in,” he said.

Carroll said the complexity and level of understanding needed to make strategic decisions meant fund members were not always getting access to leading investment strategies and hence receiving better investment returns.

“I’ve had a large fund say to me that they really like one of our strategies but could never invest in it because they couldn’t get their trustee board to understand it,” he said.

Money Managers managing director Kevin Bailey said that rather than overhaul the system, trustees needed to better qualified and educated.

Speaking at an industry conference last month, the

financial planner questioned the ability of trustees of some funds to understand the illiquid investments they had invested in.

Bailey told *Investor Weekly* that trustees needed to properly inform themselves about the issues.

“They need to apply much more science and empirical evidence for the work they do and they need to have less reliance on consultants and people who waltz in and tell them what they need to invest in,” he said.

Colonial State First Global Asset Management head Neil Cochrane said the industry was aware of the potential issues with the trustee system.

“The transition is occurring through the prudence of the boards and I think there is a mechanism to make sure the right people are there,” Cochrane said. ✱

Executives under microscope

{ JULIE MAY

Company directors and executives need their performance assessed more frequently and rigorously, according to a survey by independent management consultancy SSAMM.

The review, conducted across 25 large Australian financial services companies, highlighted that the lack of thorough assessment at an executive level was of much concern, SSAMM director Ulysses Chioatto said.

The issue was first raised at this year’s Responsible Officers and Managers Forum, facilitated by the consultancy group.

“Methods of thinking, communication styles and decision-making processes were the critical areas that needed regular assessment attention,

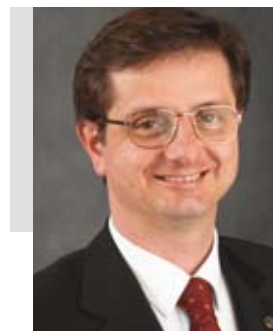
according to survey participants,” Chioatto said.

“Most felt there was little in place to measure the importance executives placed on legal responsibilities and duties of care.

“Participants acknowledged there were rare appraisals of executives and when there were, they focused more on bonuses than leadership.”

Few believed assessors had the proper training to conduct an appraisal and many thought there was inherent bias in the person conducting the appraisal, according to the survey.

“Those interviewed felt executive assessment tools available were inadequate, outdated and inappropriately applied by poorly-trained practitioners and pop



{ ULYSSES CHIOATTO
duties of care

psychologists,” Chioatto said.

“Participants also commented that various industry bodies had also expressed concern at the lack of rigour in executive assessments conducted at their organisations and that it was time the issue was out on the table for serious industry debate.” ✱