degree by which the profit would exceed $A1M. It is impossible to quantify these expectations but you will remember that at the start I said I am optimistic.

Diversification

So far only the Company's activities in sugar have been dealt with. This of course is because sugar is the company's main product and this commodity is the one likely to be most affected by Britain's entry to the E.E.C.

It is of course axiomatic that, in the interests of the shareholders, if the company suffers damage in the sugar area then in addition to seeking compensation in the same field it should also extend its search into other fields.

In any case intelligent diversification is desirable to avoid having all the eggs in the one basket.

Since the company went public in 1960 it has followed a policy of diversification by acquisition of an industrial chemical company; Pioneer Chemicals Pty. Ltd. whose main activities lie in the field of protective coatings notably with Killrust and Fishoilene; and several cattle properties grouped under Pioneer Stations Pty. Ltd. These stations comprise a total area of 707 square miles and carry 27,000 head of cattle. A droughtmaster stud is also operated adjacent to Pioneer Mill.

Other avenues for diversification have been examined, but so far there has been nothing that the directors could accept.

Though a departure from normal practice, rather than a true diversification, the matter of the exploitation of one of the industry's main by-products - bagasse - has received the attention of large U.S. chemical companies in the last year or so.

Bagasse is not a waste product as it is used as the fuel to run the entire factory. Consequently the direction of this material into other avenues involves its replacement with oil or coal and the costly conversion of the existing steam generating plants.

So far the developments in this direction have not passed the initial feasibility stage.

AUSTRALIAN MANAGEMENT INVESTMENT COMPANIES - IS MODESTY A VIRTUE?

By A.J. MacQuillan (Sydney)

This article is concerned with the history and problems of investment policy for managers, in Australia, of management investment companies and attempts to explore the theme 'that within the limitations of local equity markets modesty may very well be a virtue'.

BACKGROUND

The investment company concept in Australia like that of many other institutions was imported from overseas where it dates from the early nineteenth century. Some authorities give the Societé General de Belgique, founded in Brussels in 1822, credit for being the first investment company, but the Massachusetts Hospital Life Insurance Company, formed in 1818, according to the U.S. Investment Company Institute, gave "beneficiaries a share in total fund income for 'annuities in trust' and 'endowments in trust' issued in a manner similar to the method used by investment companies today."

Apparently the concept did not thrive in Belgium or elsewhere on the continent. In Scotland, England and the United States, on the other hand, it became steadily popular despite a number of spectacular British failures between 1890 and 1895.

Undoubtedly the popularity of investment companies in the United States had much to do with the attainment by the U.S. of creditor nation status and the coincidental growth in the number of investors from an estimated 500,000 prior to World War I to between fifteen and twenty million by 1927.

The history of investment companies in the twenties is well documented by Galbraith in "The Great Crash" when scores of U.S. investment companies quickly disappeared from the scene. Despite the scandals surrounding many of these failures the Securities Act of 1933 and the Securities Exchange Act of 1934 apparently did not refer specifically to investment companies. It was not until 1940 that this deficiency was corrected with the enactment of the Investment Company Act.

In a monograph published for the U.S. Commission on Money and Credit the Investment Company Institute stated: "In general, the regulations attempt to prohibit those activities that would add to the other than normal risks an investor may expect from the type of investment he may select. This extends, of course, from the method of distribution to the actual fund operation. In addition, the act makes almost mandatory the maintenance of a large degree of diversification. In other words, it requires the continuance of one of the prime advantages and distinguishing features of the investment company."

The 1940 Act undoubtedly promoted renewed confidence and allowed a rapid resumption of growth in investment company formations. In 1944 member companies of the U.S. Institute had total assets of $1,621 million, by 1950 the figure was $3,374 million and by 1960 nearly $20,000 million.

The situation in Australia during this time does not appear to have been researched, but it is interesting to note that 2 B companies (those defined by the Sydney Stock Exchange as Investment Companies) having unbroken dividend records do not stretch back beyond 1935. Carlton Investments Limited appears to have earned this distinction. Although Motor Discounts Limited is shown as having an unbroken dividend record since 1932 it was not strictly an investment company at that time.

The control of investment companies in Australia is governed by the various Companies Acts of the States. New South Wales legislation provides that the Governor (and recently The Commissioner for Corporate Affairs) may proclaim any corporation an investment company, whereupon regulations on borrowing and spread immediately apply. For example, a proclaimed investment company may not invest more than 10 per cent of its tangible assets in any one corporation. Apparently this provision has never been used in New South Wales. One wonders if it had been possible to proclaim certain large corporate investors whether they would have grown as quickly and whether some would have collapsed (as they have from similar ills to those of U.S. companies in the late nineteen twenties).

SOME PROBLEMS FOR THE MANAGER

The role of the professional investment company manager in Australia is not widely understood nor are his difficulties properly appreciated. His position tends to be a precarious one in terms of the security of his continuing employment and in the restrictive scope for the practice of his skill. He is subject to pressures not only from the market place, but also from his board of directors and his shareholders, and he is always open to criticism from the press. He is expected to perform in bull markets and to conserve in bear markets, but is seldom allowed adequate freedom to fully implement his ideas and to practice his skill. His existence can be very lonely, and at times he suffers agonies of self-doubt about his general usefulness to the investment community and his company. He is at a distinct disadvantage compared with his British and North American counterparts who for example in the United States have the moral support of the Investment Company Institute, the National Association of Investment Companies, the Securities and Exchange Commission and other bodies. British and U.S. managers enjoy a better educated investment public and generally better educated directors who understand the usually long term nature of investment companies and yet who are more flexible in the short-term. A common complaint in Australia is that directors and investors wish to see their portfolio heavy with blue chips and yet they demand short-term performance. Managers say they are largely refused the right to sell their blue chips and reasonably ask if they cannot sell, how can they perform?

SOME CONSIDERATIONS ABOUT TYPICAL AUSTRALIAN INVESTMENT COMPANIES

For the purposes of this article I have selected at random four companies as being typical management investment companies:

The Darling Fund
The Delfin Australian Fund Inc.
International Pacific Corporation Australian Investments Limited
The Wales Retirement Fund

Investors subscribing or investing in these companies would have considered a number of points before committing their funds. Some of these would be the stature of the sponsoring body and the inferred expertise and trustworthiness of the managers, the diversified nature of the portfolio and its related safety through spread of investments which would not normally be available to the small investor, the advantages of having someone else making investment decisions and attending to the necessary procedures and accounting, and the ability to convert the investment to cash at short notice. Considering all of these things the investor has been well satisfied in all respects except, perhaps, in the degree to which the company has performed relative to other modes of investment.

The investor in these funds through the frequent publication of reports has probably been better informed about his investment than any other class of investor. The assets are all valued at market price and he can easily identify what the assets are. The question is, setting aside the benefits of hindsight, is he really worse off today than he would have been if he had himself invested wholly in debentures, or equities or both?

It is easy to look at 9% debentures and draw comparisons but several years ago the rate was much lower. It is also easy to look at individual equities and wish that investment in equities had been more direct, but many stocks are now at their lowest point since 1960. The answer to the question surely is: he might have been better off if he had invested more directly, but on the other hand he might very well be considerably worse off. For example, most debentures listed on The Sydney Stock Exchange are selling below par, and any purchaser of a portfolio equivalent to the S.S.E. "All Ordinaries Index" since early 1968 would probably be a loser.

THE ROLE OF THE INVESTMENT COMPANY IN THE SAVING PROCESS

As the name implies these companies are directed more toward investment than speculation, but since the securities in which they invest are affected by economic factors such as changes in the interest rate structure and in business opportunities, the value of their investments tends to fluctuate somewhat in line with the business cycle. Accordingly, some speculation is not altogether ruled out. Nonetheless, despite a major world depression well-diversified equity investments since 1900 have been able to show an overall upward trend in their values averaging about 3½ per cent yearly. Discounting the value of dividends the investor's capital has approximately kept pace with the long term depreciation rate of currencies in the English speaking world. It is obviously this factor which has encouraged savers to invest in equity based portfolios.

Generally, in Australia, it is thought that the median investment company investor is a long-term investor with relatively small investments. Investments tend to be of the order of about $1,000 or less at a time, and investment company shares are used as part of an overall plan to save money for retirement. For these investors the investment company does provide a long-term estate-creating alternative to savings bank, building society and similar forms of investment with approximately the same facilities of withdrawal, professional management and the facility of occasional further investment.

It is important to appreciate the motives and aspirations of the median investment company investor when considering investment policy. Certainly he wants to make money, but generally not at the risk of losing most or all of his investment.

GO-GO MANAGERS, OTHER CHARLATANS AND INVESTMENT POLICY

Due to the long-term nature of investment companies it is inevitable that their shareholders during the currency of a long-term investment will be tempted in times of buoyant stock markets by more exciting investment vehicles. The history of these gaudy temptresses is long and chequered. Brilliant young men, hitherto unheard of, emerge as whiz-kids, and go-go managers. Investment company shareholders, bored with last year's 6% rise in value and the previous year's 15% fall, are easy prey. Conglomerates, agglomerates, geared vehicles and "ramps" come and go. The excitement of course is intense, and dare it be said - the outcome in the long-run is obvious. Then finally there is talk of "back to fundamentals", "yield" and "asset-backing", enquiries as to the criminal intent of broken promoters, and politicians trying to wring the last drop of political advantage out of the sorry plight of the "little investor".

Clearly the investment company investor should have stayed where he was. One thousand dollars takes a lot of saving, and he would be surprised that the conservative investment company manager was aware of it all along.

What determines investment policy is closely related to the basic objectives of the company which are generally clearly discernible. Objects may vary, but the following are fundamental to sound management of investment companies: long-term capital and income growth, current investment income and capital preservation.

APPARENT POLICIES OF RANDOM SAMPLE

A scrutiny of the portfolios of the four Australian investment companies mentioned earlier holds few surprises. One could ask, for example, whether B.H.P. is held?

Answer: YES. Proportion to total investments as follows.

	Darling	Delfin	IPCAIL	Wales Ret.
%	4.9	11.7*	5.2	5.9

(* wholly capital growth)

Does each fund hold A.C.I., C.S.R., M.I.M., or W.M.C.?

Answer: YES

Is each fund well diversified? Answer: YES

Clearly each of the managers of these funds has followed fundamentals: long-term capital and income growth, current investment income (except Delfin see * above) and capital preservation. What is disappointing of course is that the funds are not more liquid, but it would have been a percipient fund manager who would have sold B.H.P. at $14.00, C.S.R. at $6.00, C.R.A. at $9.00 and so on.

Besides, there is the perennial problem of capital gains tax. The manager must ask himself, considering our quaint Australian tax legislation, whether the fund is likely to be taxed on a capital profit or not, whether it is desirable to have the entire fund classified as a trader or not. Problems like these make the lot of the Australian investment manager a difficult one.

MODESTY IS A VIRTUE

The foregoing remarks may bring on groans and derisive laughter from those optimists who believe they can do better than the conservatives. Strangely, the optimistically go-go are suddenly quiet, or out of business. The modest may have seen the value of their portfolios decline considerably, but live to fight another day. Modesty is certainly a virtue when it comes to stewardship of other peoples' money.

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THE SHIFTING RULES OF PLAY IN THE BUSINESS GAME

By Meredith Ryan, A.M.P. Society (Sydney)

In the business game, "it is difficult to survive in markets without having a feel for the subtle relationships of law (the formal rules), custom (the informal rules which can be stable for long periods) and hard economics. Standard modes of economic thought (e.g. the classical ideal market) do not deal adequately with the inter-relationship". So says John McDonald in "How Social Responsibility Fits the Game of Business", Fortune, December 1970.