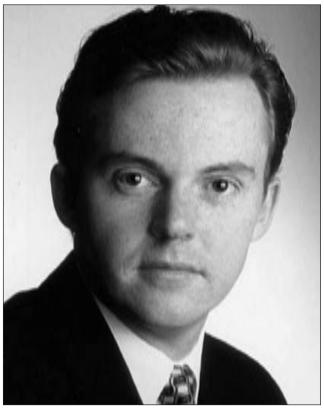

SCOTT DONALD SF Fin
Director of Capital Markets Research
Russell Investment Group

From the Chair of the Editorial Board

This edition of JASSA includes papers canvassing a wide range of ideas, reflecting Finsia's diverse membership and the wealth of applied research currently underway across Australia. We are also pleased to include a number of papers from the 12th Melbourne Money and Finance Conference, 'Wealth Management: Trends and Issues'.

Kingsley Fong, David Gallagher and Adrian Lee examine the sources of excess return ('alpha') in active Australian equity funds. Working from actual portfolio holdings they find that the prime contributor to alpha is stock selection ability and passive excess style return within large cap stocks, especially the banking and finance industry.

Hugh O'Reilly, Kim Wyatt and Jon Phillips note that newspapers have been full of advice on the appropriate level of post-tax voluntary superannuation contributions following the July 2007 extension of the Government's co-contribution initiative to the self-employed. Their paper identifies the optimal combination of voluntary and salary sacrificed contributions to superannuation for a variety of earnings levels and disposable amounts in order to maximise the superannuation balance. They raise the question of whether the formula for voluntary contributions in its current state sufficiently satisfies the Government's aim of encouraging lower income earners to save for their retirement through superannuation.

Les Coleman's paper gives a brief overview of agriculture in Australia, discusses drivers of returns in its principal sectors, and then applies modern financial techniques to develop an optimised portfolio. He notes that despite agriculture's recent poor financial performance, returns to the best-performing agricultural operations in Australia have roughly matched those from other sectors of the economy. He concludes that because these returns move relatively independently of other asset classes, this sector should form part of a well-diversified portfolio.

The paper by Jason Hall and Shannon Nicholls examines the impact of the growing use of real options valuation in corporate finance practice and its contrasting minimal use by equity analysts who largely rely on multiples-based valuation. They argue that valuations which incorporate the value of embedded options provide a better approximation of transaction prices than standard discounted cash flows (DCF) valuations. They also suggest that with close to one-third of large Australian-listed firms now using option pricing techniques to improve decision-making this is likely to replace DCF as the standard valuation technique in the foreseeable future.

Owen Covick notes the potential for interaction between the growing popularity of SMSFs and the Australian Government's Simplified Superannuation reforms. Add to this the effects of an ageing population and the outlook appears ripe for substantial growth in the numbers of self-managed allocated pension funds in Australia. Within this context, he raises a number of potential policy problems and provides some suggestions for addressing them. One of the critical issues that he raises relates to the ageing of SMSF trustees. He asks: what if the ageing process, or the death of the 'prime mover' member of a more-than-one-member self-managed allocated pension allows it to drift past the point at which it would have been in the members' best interests to wind it up and either roll over into an APRA regulated vehicle, or take the remaining funds outside the superannuation system?

Pamela F. Hanrahan examines the funds management industry from a different perspective, providing a survey of directors' accountability in funds management companies. She notes that the complex legal and regulatory framework creates particular challenges in mapping and understanding the duties and liabilities of directors and other officers of funds management companies. Hanrahan's research shows that while an overall pattern of accountability can be found, there is clear divergence in the approach to, and intensity of, officers' accountability across the different forms of collective investments. She raises the question: to the extent that the various activities undertaken by funds management companies are functionally equivalent (if they are), is it appropriate that the pattern and degree of officers' accountability varies in this way? Her taxonomy for officers' accountability provides an analytical framework for addressing this question.

In his Discussion Paper, Howard Pender takes up the issues raised by Pamela Hanrahan about the unduly complex set of rules that has been created through the regulation of funds management in Australia. Pender observes that the 'rules' governing funds management – that span thousands of pages of laws and tens if not hundreds of thousands of pages of rulings, determinations, guidelines, compliance and risk management plans – indicate that Australia suffers from 'hyperlexis'. Noting that the social problem which the regulation of funds management is intended to address is an agency problem, Pender suggests that there are both public and private solutions to this problem.

JASSA provides an important opportunity for intellectual debate and the sharing of ideas between practitioners, academics, policy makers and regulators on new industry developments and practical approaches to policy issues. I look forward to many more interesting and insightful contributions from our readers. The guidelines for submission are available at www.finsia.com/Membership/Publications. Any comments on our articles are also very welcome at m.fahrer@finsia.com.