

M&CO Newsletter

Cautious times and time to be cautious...

The Australian Institute of Company Directors (AICD) invited 600 directors of ASX-200 listed companies to complete the Treasury *Survey of Company Directors* a few months ago.

The survey results provide strong evidence that director liability and personal liability in particular, are of major concern for company directors & have a negative effect on board's recruitment, retention and decision-making.

There are currently more than 600 state and territory laws in Australia imposing personal liability on individual directors and officers.

Highlights of the survey results include the following:

-78 per cent of respondents think there is a medium-high risk of being personally liable for board decisions made in good faith;

-78 per cent of respondents considered that the risk of personal liability had caused them, or the board on which they sit, to occasionally or frequently take an overly cautious approach to business decision-making;

-71 per cent of respondents had declined the offer of a company directorship because of the risk of personal liability. 62 per cent of respondents thought that their boards had lost a potential or suitable board member because of that person's concern about the risk of personal liability; and

-Over 75 per cent of respondents knew of other people who had resigned from a company directorship because of the risk of personal liability.

- If you're also a company director, you're quite likely to feel the same. So why not take advantage of the currently very depressed markets to transfer your personally held shares, managed funds & business real property into your self managed super where they'll be protected at law from litigants, with minimum CGT, or even the prospect of crystallising a useful capital loss that can be carried forward to be offset against future capital gains.

-Not sure how? Please call or email us today to discuss further.

Phased retirement is something we will hear a lot of in the next 15 years as baby boomers hit their 60s...

Recent research by Russell Investments, based on Australian Bureau of Statistics figures, shows 41 % of full-time workers expect to shift to part-time work before retiring, while 20 % don't expect to retire at all.

A Newspan survey shows 43 % of baby boomers expect to work past 65, with 57 per cent of middle-income earners citing financial need as the main reason.

Higher income earners say they want to continue working because they enjoy it. They reject the long-standing view of retirement and want to change down a gear, enjoying other interests while remaining in the workforce.

Russell analysed the figures to demonstrate the benefits of working longer.

A couple with a joint income of \$85,000 who save until 60 before retiring with an income of \$50,000 a year (with the woman assumed to have had 10 years out of the workforce), and who draw down from their \$500,000 super balance at 60, will run out of money when they reach 79.

The same couple, having reduced their working hours to 60 % between age 60 and 65, will have \$600,000 in the super kitty at retirement. They will be able to draw down \$50,000 a year until they reach 95.

That extra 5 years of part-time work, @ 2/3rd their previous pace adds 15 years to their draw-down phase.

Norway ethics & investment philosophy

The Government Pension Fund of Norway (GPFN), the world's second-biggest sovereign wealth fund has dumped its US\$850 million stake in Melbourne-based mining giant Rio Tinto & has barred itself from investing in Rio Tinto ever again, accusing Rio Tinto of causing severe environmental damage to a river near the Grasberg Mine in Indonesia that discharges very large amounts of tailings directly into a natural river system, approximately 230,000 tonnes or more per day," a Norwegian Government statement said.

Norway has demonstrated to Australian the significance of screening companies for environmental, social and corporate governance (ESG) principle. Researching ESG principles should be part of a sound risk management process, when selecting stocks and managed funds, looking at manager that signed up to the UN Principles of Responsible Investing and see if they have policies and statements

Norway used revenue from its oil operations to create the sovereign wealth fund in 1995, which now holds around \$450 billion in assets on behalf of 4.7 million residents, which means that every Norwegian citizen has \$957,447 in super assets held by the government to back their own retirement. Not bad an outcome if you consider their starting point was not that dissimilar to Australia.

There has been 5 main models of oil reserves management these last few decades:

The Australian, British, Arab Gulf-Countries & Norwegian.

The Australian let its traditional overlords develop its oil reserves. That essentially means American & a couple of British oils companies that paid taxes, employed some locals & promptly repatriated the profits back home for the benefit of their own shareholders.

The British model was more Government controlled & it used profits to re-invest at the time, in badly needed British public infrastructure, so its money has already been spent

Arab Gulf-Countries mostly kept the money in the family but spent some on infrastructure.

The Nigerian kept it all in Swiss bank accounts in the name of the then reigning dictator & a few of his favourite & closest cronies.

The Norwegian invested it in their oil client's countries, creating one of the world's first & now the world's second-biggest sovereign wealth fund & are starting to reap its benefits.

No wonder the East-Timor Government called in the Norwegian to help structure then manage its own fledgling USD 4.5 Bn Petroleum fund started only 4-5 years ago.

Acknowledgements: AICD, Financial Planning News, Investor-daily

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