ANGAS SECURITIES

INVESTOR NEWS

JULY 2010

SUPERANNUATION INVESTMENTS UNDER REVIEW

The Final Report of the Review into Australia's Superannuation System was delivered to the Commonwealth Government on 30th June 2010. The Review Panel was chaired by Jeremy Cooper, a lawyer who was previously Deputy Chairman of ASIC. The Terms of Reference for the Review are set out on page 2 of this edition of Investor News. A key outcome for superannuation reform is to maximize the retirement incomes of Australians. Fixed interest debentures issued by Angas Securities are a favoured investment of the trustees of many Self Managed Superannuation Funds ("SMSF"). The Superannuation Review Panel noted that the SMSF sector is Australia's largest superannuation sector by number of funds and asset size. As at 30 March 2010, there were 423,000 SMSFs with over 30 per cent of total superannuation assets. The sector has over 806,000 members or accounts.

On the face of it, the SMSF sector performs at least as well as the large APRA fund sector according to the findings of the Review. SMSFs and their antecedents have been around for more than 30 years. The SMSF sector has seen rapid growth in recent years, increasing from $132B to $332B in the five years to 30 June 2009; an annualized growth rate of 20 per cent. Compared to members of other types of superannuation funds, SMSF members are on average older, earn a higher income and have larger superannuation balances. As part of the regulatory framework, all SMSFs must have their financial accounts and compliance audited annually by an approved auditor. The Final Report identified ten principles underpinning superannuation reform. A summary of these principles are set out on page 3.

BUSINESS ORIGINATION
DUANE DAVIES

The specialist business of Angas Securities is to invest debenture funds in first mortgage secured loans on terms that generate a superior return – usually because the transaction is for a short duration or for an interim purpose (often described as bridging finance). The returns from these loan investments fund the fixed rate interest paid on debentures. Traditionally, Angas Securities has received loan requests from commercial introducers such as finance brokers. The recent financial down turn and associated credit squeeze saw a significant contraction of available lending sources which produced a resultant increase in demand for funds. The response of Angas Securities to these developments was to recruit Duane Davies, an experienced banker and structured financier, to process new loan requests. Duane took up this new position in January 2010. Much of the business transacted by Duane is referred direct to Angas Securities by lawyers or accountants on behalf of clients seeking corporate or property re-structuring.

TERMS OF REFERENCE OF THE SUPERANNUATION SYSTEM REVIEW

The Review was established to comprehensively examine and analyse the governance, efficiency, structure and operation of Australia's superannuation system, including both compulsory and voluntary aspects, addressing the following issues:

GOVERNANCE: to examine the legal and regulatory framework of the superannuation system, including issues of trustee knowledge, skills and training; to thoroughly assess the risks involved In the use of debt and leverage and the development of investment options that lead to a weakening of the diversification principle in the superannuation system;

EFFICIENCY: to ensure the most efficient operation of the superannuation system for all members including removing unnecessary complexities from the system and ensuring that it operates in the most cost effective manner and in the best interests of members;

STRUCTURE: to promote effective competition in the superannuation system that leads to downward pressure on system costs, to examine current add-on features of the superannuation system; and, to examine other structural legacy features of the system;

OPERATION: to maximise returns to members, including through minimizing costs and delivering value for money through soundly regulated default products, and to minimise conflicts of interest that may inhibit advice being given in the best interests of members.

The Review was to be conducted around the concepts of the best interests of the fund member and the maximizing of retirement incomes for Australians.

The Review was to be conducted with reference to improving the regulation of the superannuation system, whilst also reducing business costs within the system.

The Review was to be a systematic examination, including all superannuation fund sectors.

In conducting its work, and in determining all its recommendations, the Review was to have regard to a Communiqué of Principles issued by Treasury.

The Review was to comparatively examine international jurisdictions and was to consult with experts as needed from other jurisdictions.

The review excluded from consideration the issues before the Future Tax System review concerning system inputs such as the level of superannuation contributions, taxation concessions and other incentives.

The Review excluded from consideration the development of a superannuation clearing house or the project addressing the consolidation of lost accounts.

The Review was led by an expert panel made up of Jeremy Cooper as full-time Chairman and five part-time members. It was supported by a secretariat drawing on the skills of the key policy and regulation agencies of the Commonwealth, as well as market expertise.

The Review consulted with the superannuation industry, other stakeholders and the broader public.

PAUL MCCARTHY,
DUANE DAVIES AND
ANTHONY APOSTOLAKOS

UNDERLYING PRINCIPLES RELATING TO SMSF REFORM

PRINCIPLE 1
ULTIMATE RESPONSIBILITY

SMSFs are unique in Australia's superannuation system in that SMSF members have effectively assumed sole responsibility for their retirement savings. This affects a wide range of regulatory settings that are appropriate for SMSFs.

PRINCIPLE 2
FREEDOM FROM INTERVENTION

Given that SMSF members are entirely responsible for their own decisions (principle 1), the Review Panel found the ability to be genuinely self-directed and self-sufficient as an important feature of SMSFs. The Panel believes that the trustees should not lightly be exposed to administrative and other burdens that are not directly relevant to building their retirement savings through sound investment practices.

PRINCIPLE 3
BUT NOT COMPLETE ABSENCE OF INTERVENTION

All superannuation funds, including SMSFs, benefit from valuable tax concessions that are designed to encourage and help members to save for retirement. In addition, the government underwrites the risk of SMSF failure via the social security system. The Review Panel believes that this justifies some intervention in the way SMSFs are managed and that the community also has a right to a certain level of information about them.

PRINCIPLE 4
SERVICE PROVIDERS

Consistent with the first three principles, trustee are not required to use a service provider when running an SMSF, other than the annual audit, which must be carried out by an approved auditor. The Review Panel believes that government policies should be directed at ensuring service providers maintain a high standard of competency and compliance as part of the overall regulatory framework. Where appropriate, licensing should be used to achieve this, but only in a way that demonstrably adds value to the sector.

PRINCIPLE 5
APPROPRIATE ENTRY INTO SMSF

The review panel believes that people should be able to form an SMSF without expert advice if they wish to do so. Standards for expert advice need to be high within a robust regulatory framework to ensure members are not being inappropriately advised into the product.

PRINCIPLE 6
CONSISTENT TREATMENT WITH LARGE APRA FUND WHERE APPROPRIATE

The Review Panel believes that the norm should be that all superannuation funds should be treated in the same way. Many rules for SMSFs will be the same as those applicable to large APRA funds and that is in fact the case. However, consistency with large APRA funds will not always be appropriate for SMSFs.

PRINCIPLE 7
RECOGNITION OF SPECIAL RISKS IN AN SMSF ENVIRONMENT

Extending principle 6, the Review Panel recognizes that the SMSF environment creates some particular tension in appropriately managing the personal preferences and lifestyle choices of the members (and their related entities). While trustee decisions for all funds are made within the framework for the sole purpose test, the Panel believes that it is appropriate to impose some additional restrictions on SMSF trustees (over and above the restrictions imposed on funds with an external trustee) given those tensions.

PRINCIPLE 8
LEVERAGE

Leverage should not be a core focus for SMSFs. The Review Panel believes that there is room for leverage in SMSFs, but it should be ancillary to main strategies employed to build retirement savings over the longer term.

PRINCIPLE 9
COMPLIANCE, RATHER THAN PRUDENTIAL, REGULATORY FOCUS

An important element in the supervision of large APRA funds is ensuring that trustees are acting in members' best interests at all times. The role of the regulator and key industry participants (such as auditors) for the SMSF sector should be legislative compliance, rather than a prudential objective.

PRINCIPLE 10
PURSUIT OF EXCELLENCE

Given that SMSF funds are widely dispersed and non-institutionalised, and that many SMSF service providers are also fragmented and lack scale, there is a challenge for the sector in investing in improvements such as technology, governance and investor education. The Review Panel believes that a sector that has such a large proportion of Australia's retirement savings needs an aggressive agenda aimed at pursuing excellence across all its activities.

PERTH

338 Hay St
Subiaco WA 6008

PO Box 1602
Subiaco WA 6904

Ph (08) 9380 4983
Fax (08) 9380 4480

ADELAIDE

Level 14, 26 Flinders St
Adelaide SA 5000

GPO Box 2948
Adelaide SA 5001

Ph (08) 8410 4343
Fax (08) 8410 4355

MELBOURNE

Level 7, 1 Queens Rd
Melbourne VIC 3004

GPO Box 7720
Melbourne VIC 3004

Ph (03) 9863 8460
Fax (03) 9863 8463

BRISBANE

1 Arbour Ave
Robina QLD 4226

PO Box 5116
Robina Town Centre QLD 4230

Ph (07) 5578 9311
Fax (07) 5593 2422

FIXED INTEREST DEBENTURE STOCK

You could be earning **9.0%** p.a.

fixed for 3 years

INVESTOR SERVICE LINE 1800 010 800

Interest paid Monthly or Reinvested
Listed on the National Stock Exchange of Australia
Investments only by the application form contained in our Prospectus.

This is not a bank deposit.

IMPORTANT NOTICE

This newsletter does not contain investment advice. You should carefully consider the content of our Prospectus and seek advice from your own qualified financial adviser. This newsletter contains general information only and does not take into account your individual objectives, financial situation or needs.

ANGAS SECURITIES

VISIT ANGAS SECURITIES ON THE WEB
www.angassecurities.com