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HD **Herd mentality grips fundies**

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The wall of foreign money that has kept the Australian dollar high and driven Australian bond yields to historic lows is showing no signs of letting up.

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That's the considered view of Philip Moffitt who is responsible for about $US50 **billion** in fixed income assets in the Asia Pacific region. He heads Goldman Sachs Asset Management in Australia and has been in the fixed income market for almost 30 years.

Moffitt says the price of Australian 10 year government **bonds** is headed up, which means the yield is headed down. Ten year **bonds** are trading at 3.41 per cent and Moffitt says they will rally through 3 per cent.

This rally will be driven by pension funds shifting out of cash into fixed income securities. He says the problem with sitting on cash is that it can cost a fund manager about 30 basis points of return each month.

The prospect of lower long-term borrowing costs for the federal government has implications for retail borrowers. The fact that Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corp all cut their five-year fixed rate loans to below 5 per cent on Thursday says bank-term funding is at record lows or heading south.

Moffitt says herd mentality had gripped many fund managers around the world this year. The fashion was to make big bets in favour of rising rates. That strategy, which turned out to be wrong, has been entrenched by low volatility in markets as measured by Chicago's VIX Index.

The lumbering herd says low volatility is a flashing warning sign and that it is a mistake not to recognise that investment products sit on a risk spectrum and should be priced accordingly.

Moffitt turns this analysis on its head and says it is quite possible that the world's central banks will manage a gradual shift away from low interest rates. There will not necessarily be the sort of "oh s--t" moment when **bonds** get dumped in a panic of mad selling.

That analysis of continuing benign conditions in fixed interest markets plays into Moffitt's bigger picture view which is shaped by his monitoring of global flows in fixed interest.

He says Goldman Sachs Asset Management is pitching for two new Australian government fixed interest mandates from two central banks. Also, he says the reforms to Japan's Government Pension Investment Fund are already being felt in Australian fixed income markets.

Similar changes in asset allocation are happening in Korea with the Korea Investment Corporation under its new chief investment officer, Heungsik Choo. The notable aspect of these moves is that other big investors in Japan and Korea will follow the **lead** of GPIF and KIS.

Moffitt says one of the biggest trends in the global fixed interest market in 2014 is the shift away from the use of asset consultants as fund managers seek more flexible mandates at lower prices.

Under Moffitt's leadership, the Goldman Sachs Core Plus Australian Fixed Income product, which is aimed at institutions, has returned 6.96 per cent over one year, 8.42 per cent over three years and 8.13 per cent over five years.

Australia's top 200 companies have done poorly in the latest investigation into their gender diversity policy disclosures, conducted by the world's biggest fund manager, BlackRock.

The bad report card, released on Wednesday, means the chairmen of some of the country's leading companies will face the wrath of one of the most influential corporate governance executives in the Asia Pacific, BlackRock's Pru Bennett.

Bennett, who is based in **Hong Kong**, is a force to be reckoned with because she represents the **millions** of people who own shares in companies through taking an index weighting. BlackRock, which has $US4.6 trillion ($4.88 trillion) in assets under management, is the world's leading index fund manager through iShares.

Bennett has been known to have had a powerful influence behind the scenes over many critical corporate governance decisions in relation to board composition, remuneration and major corporate changes.

Her investigation into the gender diversity disclosures of the S&P ASX200 in 2013 found that 3 per cent were excellent, 19 per cent good and the remainder "perfunctory, poor or generally non-disclosing".

Bennett believes it is only a matter of time before the powerful proxy advisers who influence voting at annual meetings will vote against the election of a director because of concerns about gender diversity.

"These proxy advisers are now strengthening their stands on achieving diversity," she says. "For example, CGI Glass Lewis has said it will consider recommending voting against the chair of the nomination committee, or the equivalent, at the **company**'s AGM if a **company**'s record on diversity is poor."

The only sliver of good news on gender diversity in the BlackRock report was tempered by Bennett's discovery that it was all caused by "survivor bias".

There were 33 female non-executive director appointments during the year, taking the total number of women on the top 200 boards from 17.8 per cent in 2012 to 21 per cent in 2013.

However, Bennett's report notes that the increased number of men leaving boards was having the greatest impact on the overall statistics.

"Our research showed that of the 106 non-executive director resignations, only 10 were women, thereby leaving the above figure with something of a survivor bias," the report said.

The really dismal numbers in the report are in relation to the number of women in the ranks of the key management personnel (KMP). The proportion of women who are KMPs in ASX-listed companies in 2013 was 10 per cent, up from 8 per cent in 2012.

That fits with the comment made by ANZ Banking Group chief executive Mike Smith at the B20 Business Lunch on Tuesday that Australian business leaders talk about gender diversity a lot but do nothing about it.

The BlackRock report on gender diversity named the six companies that received an excellent scorecard as: Mirvac Group, Perpetual, Graincorp, Telstra Corporation, Westfield Group and Westpac Banking Corp.

Chanticleer notes that four out of these six companies were either run by women or had a female chair when the 2013 reports were prepared.

These six companies were found to have excelled in the overall standard of disclosure and the disclosure of the governance around diversity policies, including the primary sponsorship of diversity policies and who was accountable.

The successful companies also disclosed policies for helping improve diversity in senior executive ranks and policies in relation to pay **equity**.

Bennett at BlackRock questions whether the poor disclosure of governance policies is sending a signal about the corporate culture within firms. "Unless the CEO has accountability for implementation with meaningful reports regarding output of the diversity policy reported to the board, it is difficult to see how the policy will be really effective," the report said. Bennett's report also throws the weight of BlackRock behind the data collection obligations under the Workplace Agenda Equality Act 2012. "We believe wholesale changes are not required," the report said.

As an aside, one reader pointed out on Thursday that BlackRock's own executive team is light on diversity. Only three of the 23 executives are women.

The term responsible investment manager used to only refer to a niche group of fund managers pursuing ethical, socially responsible, sustainability themed investments.

The latest report from the Responsible Investment Association of Australia shows that they are now a force to be reckoned with. The total amount of responsible investment rose 51 per cent in the year to December 2013 to $25 **billion**. Widen the definition to broad responsible investing and the total is $153 **billion** in Australia and New Zealand.

Screening out stocks involved in a range of industries including alcohol, gaming, tobacco, weapons and **coal** seam gas has not harmed returns. Core responsible investment Australian **equity** funds beat the S&P ASX 300 index and the large cap average over 1, 3, 5 and 10 years.

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