

## Don't let your SMSF life raft hit an iceberg

PAUL CAHILL  
OPINION

THE growing popularity of self-managed super funds has created a growing and rarely discussed issue that will expose tens of thousands of Australians to unforeseen events.

Insurance is one of the most critical components of any superannuation strategy, so the fact it is often overlooked by SMSF investors is concerning.

Every week, funds like Club Plus Super help members who encounter circumstances that negatively affect their health, family or income, often all three.

In 2009, one of our members, Ron, left work early with what he thought was flu. The next day some colleagues decided to pay him a visit.

After knocking for some time, Ron eventually opened his front door. "I can't remember much, but apparently I looked terrible. They called an ambulance straight away, thankfully."

Ron was diagnosed with swine flu. His condition was so severe he was placed in an induced coma for five weeks and intensive care for a further 11 weeks.

"I'm extremely lucky to be alive," said Ron. "I'm also lucky I had income protection. Just before all this happened, I nearly opted out of insurance offered through my super, but for some reason I kept it. I don't know how we would have coped without it."

Like an iceberg on a collision course with a ship, most people are oblivious to the fact that issues such as investment strategies and potential law changes are just the tip of that iceberg. What will sink the ship is what lies beneath the surface: underinsurance, for example.

While funds such as Club Plus Super offer automatic insurance cover, I'm not aware of any SMSF vehicle that does. Before embarking on an SMSF, people's first investment decision should be to ensure they and their families are adequately insured.

The problem is not just with SMSFs. Many Australians in traditional super funds also have inadequate cover. People should ask their super fund if they have automatic insurance in place and what it covers.

Those who do have insurance should check regularly with their adviser to make sure it remains appropriate.

Finally, if anyone finds they have no insurance, they should ask their fund, as a matter of urgency, whether they can provide it and at what cost.

Super offers an ideal platform through which to obtain insurance. Australian Prudential Regulation Authority-regulated super funds secure bulk insurance rates, often passing savings in the form of cheap premiums at rates not attainable through SMSFs.

The premiums are also automatically paid using before-tax super money, not your wallet, providing an easy and cost-effective way to secure cover.

People thinking about starting an SMSF would be wise to investigate Direct Investment Options in conventional funds.

Like SMSFs, DIOs give more control over your super, with the ability to invest in term deposits, shares and exchange traded funds along with the benefits of a super fund, including insurance and income protection.

Paul Cahill is chief executive of Club Plus Super.

# No fear of Coalition as Collins classes himself among friends

But the ISA chief knows there will still be white-hot debate

ANDREW MAIN

THE chairman of Industry Super Australia is not exactly quaking in his shoes at the prospect of dealing with a Coalition government. Why should he? Peter Collins spent seven years as a Liberal minister then almost four years, between 1995 and 1998, as leader of the opposition in NSW.

Not only did he work with new Treasurer Joe Hockey on the sale of the State Bank of NSW while Hockey was a junior lawyer in the early 1990s, but also he says he helped put the current chief executive of the Financial Services Council, John Brogden, into his old job leading the opposition in NSW in 2003, just when Collins was on his way out of politics. "I got him about six votes," says Collins with a smile, "when he needed maybe two."

He's full of admiration for both Hockey and Brogden but, in the words of the old advertisement, that's not all. "I was on the defence white paper consultative committee in 2000 with Arthur Sinodinos, for whom I also have the greatest respect," he says.

He explains that consultative committees tour Australia seeking public comment on aspects of proposed policy, in this case defence. He is a former reserve naval officer. "We went to places as far away as Geraldton and, yes, you get lots of different opinions."

Meaning that the man who chairs the supposedly union-dominated industry funds in Australia has worked successfully with most of the major players in the new super landscape.

So, is he a class traitor? He doesn't see it that way at all, noting that as long ago as 1956 and 1986, when the Hawke government's Accord was being negotiated, and with it the industry funds, "half the directors of those funds were from management and half from employees... People tend to forget that".

He's also comfortable about the fact that Industry Super Australia is supporting the 50-50 model of fund governance while HostPlus, of which he has been a director for seven years, has a number of independents on its board, including himself.

Shortly after Mr Sinodinos was appointed as Assistant Treasurer, and while he was still getting across his portfolio, Mr Collins made a speech saying the industry funds were very happy with their 50-50 arrangement of directors,



Peter Collins, left, with Joe Hockey and John Brogden. "This outbreak of peace won't get away from the fact that there will be a lot of issues"

in a clear warning to the new government to tread with care.

He said: "There are still people out there who harbour outdated, and clearly ideologically driven, views about the industrial environment in this country." He added that it was "no accident" employer and employee representatives could work well together on representative trustee boards. He's not quite so strident today, revealing two funds that now have independent directors, MTAA and HostPlus, had "meltdowns" that preceded the appointment of independents. "John Brumby is deputy chair of Industry Super Australia and chair of MTAA," he said.

He doesn't see the appointment of independents as being a rescue panacea, but does note that "in industry fund board appointments, one size does not fit all". And the recent guilty pleas by Health Services Union secretary Michael Williamson to charges of misusing union funds would not affect any super funds,

he said. "He was one of 16 members on the board of First State Super, the NSW public servants' fund that is going well, and was not a director of Hesta, the Health Service Union's fund," he said.

"I should add that the new

**'We see a very strong opportunity to work with the government'**

PETER COLLINS  
ISA CHAIRMAN

secretary of the Health Services Union, Gerard Hodges, has made it clear that he'll leave no stone unturned in investigating this matter."

Industry Super Australia, as the industry fund body is now called, recently called a truce with the retail funds' Financial Services Council and so far it is holding.

"This outbreak of peace won't

get away from the fact that there will be a lot of issues over which there will be white-hot disagreement," he said, without being so careless as to name one.

The likely one is the government's desire to wind back elements of FoFA, the Future of Financial Advice legislation. FoFA was brought in to force planners to be paid on a "fee for service" basis, but Mr Sinodinos told a conference on Sunday that the legislation contained "regulatory overreach" that needed paring back.

The government has a 16-point plan, at the top of which is a removal of the "Opt In" rule that forces financial planners to be formally re-engaged every two years. Mr Collins's ISA is concerned that a lot of planners have been picking up fees without providing advice and his chief executive, David Whiteley, has regularly stated that Opt-In will have the effect of clearing them out. It does not come into operation until July next year.

Mr Brogden's FSC has gone along with Opt-In, but not so emphatically as the industry funds, which suggests a move to delete Opt-in won't get the same opposition from the retail funds' FSC as it will from Mr Collins's IFA.

Meanwhile, the industry funds hold a strong hand in terms of their infrastructure investments, which they are more able to make than retail funds because industry members are much more "sticky" than their retail counterparts. Retail funds whose members may withdraw funds at any time dare not risk making big bets in illiquid infrastructure assets.

Mr Collins says "we see a very strong opportunity to work with the government to increase infrastructure investment because we will be able to put \$15 billion on the table in March of next year to go into that asset class."

Not that he's putting all their eggs in one basket. He said the industry funds spoke for about \$320bn altogether, the majority of funds being members of ISA.

## Cancer-fighting biotechs highlight sector's peaks and troughs

RICHARD HEMMING  
UNDER THE RADAR



THE differing performance of two cancer-fighting biotech stocks sums up a sector known for its volatility. Alchemia's stock has doubled in the past two months while Prima Biomed's has plummeted more than 60 per cent. What's going on? How can investors make money from such a volatile sector?

The short answer is investors'

aversion to risk. While both have potential markets running into the billions of dollars, investors are wary of sexy science that doesn't produce results.

Australian Ethical's small-caps portfolio manager Andy Gracey is one of the more active investors in the domestic sector. He says that if you take the approach of reducing biotech risk to its obvious conclusion you end up with speciality pharmaceutical, medical device and late-stage drug development companies.

"Investors are more interested in lower risk, and don't want to take a new compound right through. They want to jump on something late-stage development. That's why you've seen Mayne Pharma do well."

Late last year, Mayne Pharma (ASX code MYX) bought US-

based Metrics, which specialises in producing generic sedatives. In the past year, Mayne Pharma's stock has almost tripled.

Gracey's fund also owns Alchemia (ACL), whose rise can be considered a return to form after a demerger gone wrong. At 61.5c, its shares are actually trading above their levels late last year, before the intended demerger.

Institutions are rediscovering their love for a stock that has \$13 million in cash; a generic drug that treats blood clots and is producing increasing royalties; and a treatment for colorectal cancer called HA-Irinotecan, which is in late-stage clinical trials.

"HA" stands for hyaluronic acid, which is added to Irinotecan, a compound which is commonly used to treat cancerous tumours. It is simple, but effective.

The entire 415 patients with colorectal cancer have been recruited on time for the trial. This means that it is on target to file for approval with the US Food and Drug Administration next year if it can prove patients' tumours do not grow for a minimum of six weeks.

Meanwhile, the writing has been on the wall for some time for Prima Biomed (PRR), whose shares are trading at 6.3c, a far cry from their 40c-plus levels in April 2011.

The first signs came in the past year when recruitment for Prima's treatment for ovarian cancer was taking longer than expected.

Prima is trying to develop one of a new breed of "immunotherapy" drugs. Its CVac vaccine is designed to prevent the recurrence of ovarian cancer after surgery and chemotherapy. Dendritic cells are taken out of a woman's body and then "sensitised" to ovarian cancer and reinserted. When a woman's cells sense ovarian cancer these cells take it to the immune system and destroy the cells, in theory.

The proverbial nail in the coffin was in September, when its mid-stage clinical trial failed to show that there was significant difference between Prima's vaccine and the placebo. This trial was simply to show that CVac wasn't harmful, but in its haste to develop its product Prima had been talking up the performance of the vaccine on limited data.

Share prices always tell a story and in biotech it is important to differentiate between scientific hype and financial reality. [undertheradarreport.com.au](http://undertheradarreport.com.au)

Richard Hemming is an independent analyst. The author does not own shares in any of the companies mentioned.

## Sirtex looks sure to deliver



ROGER MONTGOMERY

SIRTEX Medical Limited (SRX) is perhaps not a business you are familiar with, but we believe it's a real success story with bright prospects.

This Australian medical business' core product is SIR-Spheres, which deliver a highly focused radioactive dose directly to liver cancers.

Approximately 600,000 cases of liver cancer are diagnosed each year, including 19,000 in the US, 54,000 in Europe and 390,000 in China, Korea and Japan. Chemotherapy has been the gold standard in treatment for many decades, but the combined use with SIR-Spheres is growing.

While it's early days, it is hoped that the focused nature of the treatment, which delivers a radioactive dose several times the potency of standard chemotherapy, will be enough to shrink tumours to a size at which they can be removed.

Strong growth in sales has led Sirtex to undertake a Phase III trial and we expect the results to be announced in early 2015. A number of smaller trials have shown excellent outcomes, and we anticipate that the Phase III trial will result in much broader adoption of SIR-Spheres.

Sirtex is currently expanding its sales teams and US and German manufacturing facilities in anticipation of strong demand, and it is continuing to update shareholders on how dose sales are tracking. The following statement is from Sirtex's most recent quarterly disclosure, on October 4: "Sirtex Medical Limited today announced sales of its SIR-Spheres microspheres-targeted radiation therapy for liver cancer grew 4.1 per cent for the quarter ended September 30 compared to the previous corresponding period. Sirtex has now recorded 37 consecutive quarters of positive growth."

The update seemed to disappoint and the share price declined, so for context let's compare the past 12 quarterly disclosures. We suspect the negativity is due to the growth rate being low compared to exceptional historical performance. Four per cent growth as the new normal would be concerning for the future prospects of SIR-Sphere dose sales as it might imply the outlook for the business has faded.

Is the growth profile as attractive as it once was? In the same period last year, a record 37 per cent in dose sales growth was achieved. The September 2013 quarter numbers were therefore "cycling" off a very high base.

We therefore view the market's reaction to the recent disclosure as an overreaction. Perhaps more important to focus on was the following sentence: "Dose sales increased in the Americas by 6.6 per cent and 10.2 per cent in APAC (Asia Pacific). EMEA (Europe, Middle East and Africa) declined 5.1 per cent."

While US and APAC growth impressed, EMEA is potentially a very large market for SIR-Spheres, so it's important to understand what caused the 5.1 per cent contraction. One of the key risks to Sirtex's business model is whether hospitals and practitioners that use SIR-Spheres have access to an adequate level of "reimbursement".

This is a fundamental driver of all medical device use. Should reimbursement ever become unavailable, demand will simply decline.

Across major markets in Britain, the US and the Asia-Pacific, there are diverse funding schemes. In Britain, SIR-Spheres were until recently captured under the UK Cancer Drug Fund reimbursement system. A SIR-Sphere, however, is a device, not a drug. And when this was picked up it was promptly removed. For a large portion of the September 2013 quarter, Sirtex's SIR-Spheres transitioned into a new scheme, Commissioning through Evaluation (CtE). This was expected to finish in July, but due to delays it has been delayed until next month.

During this period, reimbursement for the device is effectively in limbo, and this has resulted in a significant reduction in dose sales in Britain.

This is clearly a short-term negative, but in time it will potentially benefit sales. Rather than dealing with six regional cancer drug funds, institutions and practitioners will only have to deal with one national CtE scheme, making it easier to access reimbursements in the future.

Like any growing business, there are likely to be bumps along the way. Relatively few Aussie inventions have ever improved the quality of lives of patients all over the world. Cochlear's hearing devices are one example. Seeing current Sirtex management in action gives us confidence that, in time, SIR-Spheres will be recognised as another.

Roger Montgomery is the founder of Montgomery Investment Management.

# Interest rates are plummeting. But at 6.25%, bond yields are still flying.

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