Sarah Samson:

Welcome back everyone. Our next session is a hot topic for all our investors in the audience, and we're going to look through the lens of Deloitte's dynamics of superannuation to provide insights into the investment landscape in 2030. Not really a long time in our terms, but there's potential for some major shifts that may drive future decision-making. Leading this discussion will be our special guests from Deloitte, Steve Freeborn, partner, Actuaries. And Rochelle Hoffman, partner of M&A. Welcome, Steve and Rochelle.

Steve Freeborn:

Thanks, Sarah. And we've got a presentation that we prepared for today, and Rochelle reminded me, or point it out to me at the start that we didn't actually prepare this last year, so we weren't that insightful. But we have built on the presentations from previous years, and we've updated that for our current dynamics for super. It should read, 6th of February 2023, when we started putting the slides together. And 15th of February, being today, when we are delivering it.

What we want to talk about, we'll give a bit of an market overview. We'll talk about the future of retirement, because that's going to be a big part of the investment landscape for superannuation. And then some of our insights. I'm particularly excited today to be joined by Rochelle, and because the lens that she's going to bring to today will be, I'll talk about where the market's going in terms of the superannuation, the assets under management and some of the cash flows. But Rochelle's going to challenge some of that with, how are funds adapting to some of the changing environments? And in particular, through the lens of climate and sustainability.

The first thing to focus on here is just the size of our market, so a bit over $3 trillion today. Over the next 10 and 20 years, that's going to grow to almost $10 trillion in today's terms. What I've highlighted on the graph here is the green and the blue, the green are the accumulation assets, the blue is the retirement assets. And today there's about 30% of the market held in retirement. In 20 years time, there'll be about 30% of the market held in retirement. There's that constant proportion all the way through. And we know that we've got a wave of members and a wall of assets moving into retirement, but because of the compulsory drawdown in superannuation, so to get the concession tax benefits, you're required to take out a minimum amount each year from your retirement income stream. That almost keeps a lid on the growth of assets in retirement.

That's an important factor to think about. The graph on the right then looks at superannuation as a percentage of GDP. And what you can see is that last year we dipped above 140%. We are back around about 130% of GDP today. But again, over the next 20 years we anticipate that superannuation assets will grow to be about 180% of GDP, and they'll probably top out a roundabout there. Partly, that's driven by the compulsory drawdown in retirement. But also, there'll be growth in the economy notwithstanding everything else that's going on. And as well, some of that growth, we've got a lid on the growth in the sense that currently you've got 10.5% of contributions going into superannuation every year. That'll grow to 12%, but then it stops at 12%. And then one of the things to think about when you think about that percentage of assets as a proportion of GDP, is that, where are you going to place that? And 180% of GDP, that's a large part of the economy to ask the Australian market to absorb. And so they'll have to think about what that means.

Rochelle Hoffman:

Steve, I think that's such an interesting point, particularly that one around just the sheer size of the growth that's going to be coming through here. And ESG, environmental, social, and governance related considerations, sustainably in climate change. I'll just use various terminology as we move through our chat together. But I think it's never been more relevant to the super industry, and will continue to be moving forwards. And when I reflect on where we've come to already as an industry in this space, and where we're going, I think gone are the days where this is a static policy around responsible investment, largely risk driven. And that's that.

These days, all of the large super funds are thinking about this in a much more holistic way across both looking at screening and assessing potential investments of all sorts on the way from an ESG perspective. And then also from a stewardship perspective, particularly when we're talking in the listed space, but even in the private market space, really thinking about it once they're actually owning it in terms of how are they actually managing those risks and how are they actually looking for ways to create value.

And I think this question around opportunities to create value through the lens of ESG I think is going to be a really interesting topic, which is already something being discussed, but I think is going to become even more relevant over the next decade. And I think at the same time, probably one of the other things that we're seeing play out is the rise of this issue of greenwashing, which is effectively when not just in the super industry, but also in the super industry where there are potential claims being put out around green or socially aware options. And questions around, what does that really mean, and does the substance really stand up against those claims? It's going to be even more focus alongside the growth coming through.

Steve Freeborn:

Yeah. And we might touch on this a bit as we go through the slides. But what we have noticed over the last few years that in the promotion of their capabilities, a lot of superannuation funds have gravitated towards their positioning as being responsible managers of assets.

Rochelle Hoffman:

Yes. And it's so interesting how it's gone from being, okay, yes, we're asset owners and this is what we do around ESG. To actually, now the whole concept around responsible ownership now being something which is being just fully embedded into just the DNA of these funds. And then we'll come to other points around short-term versus long-term, and how you manage all of that. But yeah, it's an interesting and evolving time for ESG in the Superfund space for sure.

Steve Freeborn:

Sure. What we thought we'd look at is just in terms of by market segment, how is the market growing? And what we've identified here is that industry funds and not-for-profit funds are on this almost exponential growth curve. And some of that has been as we've reclassified some funds, so they were previously public sector or retail funds that are probably better positioned or characterized as industry funds. That's the dark fast-growing line. Retail funds and SMSF, broadly maintaining where they are in terms of, they're on a relatively constant growth rate. They're going up in terms of assets under management. Whereas, the public sector and the corporate funds are flat lining.

And I guess what's important there is when you think about that in terms of this next slide, and you break that down into the whole market and then by market segment. Looking at on the left, we've got the pre-retirement assets by market sector. On the right, we've got the post-retirement assets by market sector. And in case the lines aren't really clear for you, the fast-growing and top line on the left is the industry fund sector. The top line on the right is the SMSF sector, where almost half of the assets within that sector are already in retirement. And the next fast-growing line on the retirement one is the industry funds, and this is as all those members in retirement, or currently in accumulation. But as they move towards retirement, they're going to take with them assets and with faster and higher account balances at retirement, more of those members will take out an income stream in retirement. And so that's driving the industry fund sector's growth in retirement assets.

Rochelle Hoffman:

Steve, it's an interesting point there around the growth from an industry super fund perspective. Because if I reflect in terms of what we've been seeing around ESG strategies in particular from these funds, I would say in some respects they have been at the forefront of some of this move to actually properly integrate ESG. And I remember actually back around 10 years ago with the likes of UniSuper and some of those first shareholder resolutions for companies that they were invested in with fossil intensive businesses, and really asking those pointed questions around risks around stranded assets, risks around alignments around capital allocation, and Paris aligned futures, and really probing at that front. And I think then even more recently with the likes of HESTA and the announcement of its accelerated short-term decarbonization target, and effectively setting a carbon budget of sorts. It's been interesting to see those approaches come through. There's a number of different strategies playing out in the market, but they have definitely been in the headlines at times on particular strategies.

Steve Freeborn:

For sure. Where that then goes next is when we look at the equity allocation. And what we've just pulled out, a couple of data points here. Look at the equity allocation by market sector five years ago, and then the equity allocation today. And broadly, the equity allocation is around about 50%, slightly higher in some sectors today, but if we take 50% as the marker where they're roughly at. But what has changed is there's a slightly higher allocation to international equities today than what there was five years ago. And spoke in the introduction about the capacity of the market to absorb or continue to absorb the cash flow coming into super in the domestic markets. And this is starting to play through now in the allocation that funds are making.

Rochelle Hoffman:

And if I just pick up from an ESG perspective here, I actually think that trend towards needing to go international is going to be an interesting one, because we have already seen a number of stock exchanges introduce mandatory disclosures from a climate perspective, and ESG more broadly. And it's interesting, because Australia has historically not had compulsory disclosure requirements around climate, it's been more of a comply or explain regime. But as we see exchanges including the SEC in the States, in the USA, look to introduce mandatory climate disclosures. I think that's going to be a good thing for super funds looking to allocate and invest over there because they're going to have more transparency, or at least around climate, and over time ESG more broadly. And then what I also expect is we always see here in Australia is then the ripple effect back here, and actually potentially seeing mandatory climate disclosures and other sorts of disclosures around the ESG come back onshore here as well.

Steve Freeborn:

Yeah. And we've seen that already with design and distribution obligations originating in the UK and Europe. And then our version of that is effectively an adaptation of what already started overseas in terms of better consumer disclosure.

Rochelle Hoffman:

Yeah. And again, from an ESG perspective, we've seen that over recent years with the focus around modern slavery and human rights. Originally legislation in place in the UK that then was used as the basis for legislation in Australia, which is a core focus from an ESG diligence, and then also post-closing consideration for super funds and companies more broadly in Australia. And then just more recently, I think New Zealand's just about to introduce similar disclosure, so seeing that ripple effect on that front.

Steve Freeborn:

Yeah, sure. What's interesting as well then, is when we look at the allocation of all assets across the market and the top 20 funds by asset size, the key point here is that 84% of all assets in superannuation are held in those top 25 funds. This is in the APRA regulated space. That's quite significant consolidation and concentration. There's been a lot of consolidation already in our market, and there'll probably be more consolidation going forward. Well, we know there'll be more consolidation with some of the announced mergers that are already in the wings. But it's all about that drive for scale, and how do you achieve scale, then how do you demonstrate it?

Looking at that slide, and then in terms of those top funds, and then if we break that down a little bit further and look at the top half dozen or top seven funds here and look at their allocation to illiquid and private markets. The biggest not-for-profit funds, Aussie Super approaching 30% of assets under management in its private markets, IRT at 25%, Aware at 24, HOSTPLUS 32%. So the aberration there is UniSuper with only 7%. Now we'll caveat it, I have reached out to Uni to clarify that, and make sure that number is right. But this is our off the APRA reporting. And the other part of that is that I seem to recall a few years ago that UniSuper did have a higher exposure to illiquid and private markets assets. And so whether they've just taken a position at the moment or not, I'm not sure. But it is certainly appointed to where the funds are going and how they're managing their asset allocation.

Rochelle Hoffman:

Steve, just picking up on the private market aspect, it's been interesting because historically if you were a listed company or a listed equity, you were concerned about ESG, you had reporting obligations, et cetera. If you were private, it was almost a sense of how is ESG relevant? That the ESG team would often be the first thing to potentially get cut, no disclosures, et cetera. But that way of thinking has really been turned on its head over particularly the last few years. And particularly in terms of what we're seeing with super funds when they're actually looking to invest in these private market assets. Where these days, I would argue that the level of scrutiny and focus around ESG in the context of private markets investments is as much as what we're seeing in the listed space. And when I reflect on why that is, I think it really comes down to the fact that there's a lot more risk on the one hand from a potential stranded asset perspective if you're not thinking about ESG factors, particularly issues in relation to climate.

Steve Freeborn:

But also, if we look at this graph on the right here, one of the reasons that over the last five years all sectors have allocated more money into their private assets. Now the not-for-profit funds have led the way, and SMFS as well. But retail funds are almost the lagged in terms of their allocation to illiquid and private markets compared to the other sectors.

Rochelle Hoffman:

Yeah, that's an interesting point. And I think that there's still actually a little way still to go in terms of fully embedding ESG into the private market side of it. But also actually going beyond just the risk mitigation side of it, but actually really thinking through value creation. I guess with private markets investments you've got usually the opportunity of multi-decade where you're owning it. And so there's opportunities particularly in the climate space to, if you've bought into ports, roads, et cetera, which could currently be carbon intensive, it's actually thinking about the opportunities to actually decarbonize that and actually really drive value along that process where you've got a lot more decades to actually do it.

Steve Freeborn:

Well, and as the asset owner, being responsible for that decarbonization process.

Rochelle Hoffman:

Exactly. And I think there's different parts of the market at different stages of decarbonization, but there still is definitely a fair chunk of it. Which really is desperate for that level of certainty and investment in it to really be able to go through that decarbonization journey.

Steve Freeborn:

We've looked at assets under management, so now we're just going to talk a little bit about some of the cash flows. And the first chart I want to look at here is the one on the left that looks at the market cash flow excluding investment earnings. And what this shows is that currently, and it's the middle black line, the market is cash flow positive. And it will remain cash flow positive until about 2034. Now, when we look at the chart on the right, and we look at the market cash flow including investment earnings, we can see that we're cash flow positive forever. And markets go up, or at least for the next 20 years we are, and there'll be lots of money to invest for everyone. And there's a piece there for everyone.

Whoops, sorry I've gone the wrong way. When we break that down a little bit further and we pull out the top 10 funds from the market, now we put the top 10 funds is that black line. The fat blue line is the whole market. And what it shows is that the top 10 funds have got an almost extra 10 years of being cash flow positive. And when you think about who those top 10 funds were, they're assets under management. This was the big not-for-profit funds. And what they're doing is they're channeling that cash flow into MySuper default. And putting it into MySuper default means that they can invest it for a longer period of time. They're not so concerned about liquidity requirements, so that does allow them to focus and harness some of that in their investments in private and illiquid assets.

And then just to highlight that a little bit more, the top 10 funds by cash flow, Aussie Super, it's the standout leader with over 25 billion of free cash coming through its front door last financial year. ART, HOSTPLUS, UniSuper, the other big not-for-profits. They're between three and five or $6 billion. What's interesting here as well, is we've got three platforms also in the top 10 for cash flow, so Hub 24, Net Wealth, and Macquarie. These are typically intermediated or advisor directed cash flows. That's an important new piece of data that's coming into the marketplace.

Rochelle Hoffman:

Steve, you look at that and you just think about the amount of cash coming through with the likes of Australian Super. And you think about what the range of investment opportunities out there. And I think one of the other interesting dynamics to this is that when I look at this from an ESG perspective, where the tailwinds are coming from, we are seeing the emergence of new sectors, sub-sectors. Particularly in relation to energy, in relation to consumer, interesting digital infrastructure space as well. And I think just the opportunities to actually really get behind some of these emerging spaces is going to be really real, as is the opportunity to think, again, as we said before around opportunity for privatizations or industries, or sub-sectors that are really desperate for that level of financing or capital and investment. And it's really helped them through on this journey. I think it's going to be exciting to see what is possible here.

Steve Freeborn:

Yeah. And the big thing there is that when you've got that level of cash flow, where do you place it? And so new opportunities, and it becomes really important. And the other challenging part of that as well is that when you're investing 30% of your assets in private and illiquid markets, the cost of doing that. One of the big focus for the superannuation industry at the moment is on fees and costs, so the benchmark return after fees and expenses. So funds are really focused on being cost constrained in how they go about their investing activities.

Rochelle Hoffman:

Yeah. I think it's probably going to be need to balance that with thinking about just some of the trade-offs which we might not be able to see in the short-term necessarily, particularly when I think about it from a decomp perspective, but actually how that might actually really start to pay off in the more medium to long-term.

Steve Freeborn:

This next chart just looks at how people are accumulating assets towards retirement, and we'll build up to it in a little bit. But the aberration here is that in most brackets you can see that generationally people have got more money than they had in the five years before them. The exception is the 30, the 34, and the 35 to 39. And the reason for that is that the 2032 cohort will have less money than the 2022 cohort because of the impact of the COVID withdrawals. So what's happening there is you're seeing those withdrawals that came out of the system a couple of years ago is washing through. But apart from that, account balance are progressively getting higher with each generation.

Now where that really goes to is when we look at account balances at retirement. And what this tells us is that today 65% of members retire with less than $250,000 of assets under management. 5% of members retire with more than a million dollars of assets under management. In 20 years time, we'll have about 25% of members retiring with a million dollars or more of assets under management. We'll only have 25% of members retiring with less than $250,000 of assets. The middle 50% will have between 250,000 and a million dollars. Now that's important in terms of when we think about some of the products and the investment decisions that people will be making in their retirement years. Today, with 65% of members having less than $250,000, a large proportion of that will come out of the retirement system or the superannuation system at retirement. So people will pay down their credit card, their home loan, they'll upgrade the house and car. And if they've got some left over, they might put it in a turn deposit and an income stream, but it's a smaller amount.

When I've got more than a million dollars, I'm probably going to go and get advice, I'll be prepared to pay for that advice, and I'll definitely need an income stream. With between $250,000 and a million dollars, I'll start to get some complexity. I've got more than I can spend at retirement, typically in terms of those upgrades and debt repayments, so I need an income product. I also want to maximize my pharmaceutical benefits and social securities entitlements, so I probably need advice. But it's the cohort of the population that has often been cushioned not to get it, so there's a challenge there in terms of, how do you get these people to seek advice, pay for it, and then follow it?

Now that will only exacerbate over the next 20 years as a larger component or proportion of that population will retire with assets moving into income streams, seeking advice, being prepared to pay for advice. And in retirement, they're going to be thinking about security of income. So how secure is my income in retirement? What does that mean for the products that I'm buying? And how are they being positioned? There's some challenges that the industry needs to face over the next 20 years in terms of how we position some of those products.

And then just to put that in perspective, and this chart's a little bit difficult to follow. But what we've tried to show is that today, as a proportion of the population above preservation age receive an income stream out of their superannuation assets, the gray bars is the entire population above preservation age. The green bars are those receiving an income stream in retirement. Today, it's about 26% of the population. In 20 years time, that will grow to about 60% of the population. And an even higher proportion, probably more like 80% of the population above age 70 will be receiving an income stream out of their superannuation assets. That's going to have some profound impacts on how people consume their assets in retirement.

So bring that back then now to some of the key themes that we see playing through in markets. The first thing is that from an APRA perspective, so member outcomes drive most of the activity that superannuation funds are doing. And key among those is scale. SPS 515, which deals with member outcomes, business performance reviews. Scale, which is where the consolidation is happening. As the big funds get bigger, how are they consuming those assets? How are they making those investment decisions? But then once they do undertake those merge activities, consolidation's a big part of what they do. Simplification. It's also about realizing synergies, reducing their cost to serve, acting in the member's best financial interests. It then goes, for the purpose of today, the next big comment there is around investments, Rochelle.

Rochelle Hoffman:

Yes. And I guess from a private market's perspective, again, just that point of view that historically just ESG has not been the level of focus. But increasingly the importance of considering ESG not just pre-investment, but once you're actually in there. And as you noted as well in terms of balancing those cost considerations with the value creation, and what that actually does to those future revenue streams which will be needed come 2042 with the growth coming, people needing to actually use that money by that point. I think it's going to be a really interesting one.

But a couple of other ones, if I just actually look down at the ESG and climate theme, which actually ties back to the investments, is actually this whole subtopic around carbon pricing. Which is actually playing out and really now being considered in quite a holistic way amongst super funds. And I guess this clear recognition by super funds that while there's a lot of, I guess to some extent, ambiguity and uncertainty around where carbon pricing is going, they do need to actually have a consistent view internally because it is actually influencing a number of areas of the business. Everything from investment decision-making, asset allocation, and then ongoing asset and investment valuations. And so that is an area which is actually now having quite a bit of focus and actually coming up with really evidence-based views and scenarios around where pricing is going.

And then the other point, Steve, I might actually just point out under the ESG and climate space, is just the increase in push coming down from regulators. We mentioned earlier on around greenwashing, and ASIC released one of its core priorities mid last year, which was around addressing potential issues of greenwashing in the Superfund industry, and there's now a guidance paper with nine key areas to focus on there. And we know that there's other regulation coming through from APRA. But probably just a point on ASIC's guidance around greenwashing, is probably one of the most fundamental things that not just the super industry but adjacent financial services players including private equity are really grappling with is just the number of different meanings, interpretations that ESG conscious sustainable responsible funds and products can have in market.

And I guess the key thing that we are talking with our clients on is really just making sure that there is that robust definition and understanding, and that it's really clear and publicly disclosed. So there actually isn't that disconnect between what people think that they're opting into and what there actually signing up to.

Steve Freeborn:

Yeah, that's really interesting. I might also just touch on some of the other themes that are happening within the investment world. There's this continual drive for internalization. Now fundamentally, that's about managing costs and where funds are internalizing. They start internalizing initially around the illiquid assets of infrastructure, direct property, some private equity. But as they get bigger, they're also internalizing the liquid asset classes as well. And so we can only see that's going to continue. And again, it's part of that managing cost framework that funds are working towards.

Commented earlier about the globalization aspect. So not just increasing the allocation to global assets, but we see the big funds also establishing global investment teams. In the major investment centers around the world, they want to be on the ground in those cities, in those countries, to be able to act and identify opportunities where they could be investing to take assets private, to take them off market, or otherwise just be first in line when the opportunities present.

Something else that's going to come through is the valuation of unlisted assets. And this got a bit of discussion towards the end of last year with some funds that maintained their valuation of some of their unlisted, particularly their FinTech companies, through the financial year in a period of volatility, I'll call it, in some of the unlisted markets and FinTech markets. And ASIC, in particular, took note of that, and we expect more focus to be shown on that area this year. The other areas that are going to impact on investments that are going to be... We mentioned about the cash flow and liquidity. There's a large number of funds that we saw from that earlier slide that are already cash flow negative. That changes how you manage your assets, if you're managing for outflow compared to if you are placing new money into the market. That's going to be important. And then how funds think about that. And APRA's got its own view and review of sustainability and financial stability that it's looking at from an industry perspective.

And not to ignore it, but your future, your super performance test. This is the ticket to play that everyone is concerned about, and managing your performance to not dip below that 50 basis points below the threshold is really important. Funds can't be ignorant of the benchmarks that APRA has determined. But equally, and we're seeing this with some funds in particular, they're also seeing it as an opportunity to back themselves. So make active decisions particularly around their illiquid assets, because that's going to be the area that is hardest to replicate the index, but it's also the area that historically has delivered the greatest out performance. Rochelle, I think there was a couple of comments on this slide that you want to talk about just around regulation.

Rochelle Hoffman:

I guess just from a regulatory standpoint. A, just given, as you mentioned earlier on Steve, around just the growth of super funds. And the questions that have been coming out, not just Superfund related, but more broadly around just greenwashing. But then also actually just specifically around climate as an issue, and the risk that it genuinely actually poses for this industry in relation to stranded assets. There is regulation that has come through from a APRA, particularly around climate scenarios, and there's other regulators in the Australian market looking at driving further mandatory climate disclosures out there really aimed at lifting the bar in terms of what these funds and then what the industry's doing more broadly in relation to actually understanding how climate. Both in terms of the transition side of it, but also physical climate risk and the risk of extreme weather events, and what that's actually doing to being able to deliver financial outcomes. Actually the way in which that's being managed now, but also more importantly, how these funds are actually setting themselves up and embedding this just as part of their core risk management practices.

I would expect to see more regulation coming through in that part, which then actually raises some interesting broader questions. Which is that if we look back even five years ago, being bold on the climate front or bold from an ESG perspective in terms of your offerings in this space was seen as a point of differentiation. But if you look now and where we're going, I guess in many respects it's actually becoming quite just base expectation. I think there's some interesting questions around over time what grade's going to look like again in this space.

Steve Freeborn:

And maybe if I take that point, five years ago funds would typically accommodate the SRI or the ESG by having an option that satisfied that criteria. Whereas, now it's more about have you signed up to the UN principles of responsible investing? Does that embrace your approach to investing across the board, or do you still just have an option that satisfies that?

Rochelle Hoffman:

Yes. And I think perhaps also where this space is going to, aligned with other parts of the financial services industry, is more to an impact side of it. So really, rather than it being a socially inclusive or an ESG inclusive fund, it's more actually tackling a specific global issue around, for example, accessibility to healthcare, financial inclusion, whatnot. And actually framing it up that way as well.

Steve Freeborn:

Sure. I think we are going to pause there and open up for any questions.

Speaker 4:

Well, thank you very much. Got a lot to digest there, and a number of questions coming up. What I might do is... Actually, there was an interesting question here just in regard to the considerations with respect to ESG considerations, or return expectations. And what do you think drives the fund's investment criteria, and also the expectations particularly in light of someone's legislation around fund performance? I think what the question is in regard to, is it the ESG principles which drives the investment outcome, or the return expectations?

Rochelle Hoffman:

That's a really interesting and great question. And obviously, topical in terms of what's been happening over the last year. I guess if I just wind back to during the coronavirus period, there was a lot of research done showing that ESG funds were outperforming standard indexes. But if we look at what's happened over the last 12 months, the opposite has occurred. I think there still is a view, and I believe that consideration of ESG issues, which is a more holistic set of factors, will lead to better long-term financial outcomes. The question really is, over what period are you looking?

Now, over the last 12 months I think as well with the company sitting in ESG funds, a lot of them are actually very tech weighted. And we know that what we've actually seen from a tech perspective is a whole set of other dynamics playing out which has impacted their performance, which has therefore impacted the performance of these ESG funds. I would argue that it's not necessarily the principles around ESG, it's more a question of actually what has been selected or opted in terms of company selection that has actually been impacting the performance.

Steve Freeborn:

Yeah. I think if I was answering the question, I'd say both. Yes, there's a return requirement that funds are looking for. But then increasingly, there'll be the threshold criteria that they want you to satisfy around being a good corporate citizen.

Speaker 4:

I'm sure particularly the members as well would be pushing for achieving both would have to be the outcome they're looking for. Which I'm sure is a challenge. Question here just in regard to consolidation in the super space. And will 100 billion be the new minimum size for supers in five years? And a following question for that is actually, what is the risk to so much money being concentrated in so few funds?

Steve Freeborn:

The first question about, is 100 billion the new minimum size? I don't think so. APRA backed away from setting a minimum threshold for sustainability of $30 billion, so that was the generally accepted view a few years ago. It's now focused more on sustainability metrics generally, not just on size. Having said that, funds can still very much see the benefits of scale. And the big funds, in particular, are able to harness that scale, deliver lower fees, lower costs, and historically they've delivered higher returns. There is some empirical evidence to suggest that there are benefits of being bigger. The big funds will certainly all be $100 billion plus. The biggest funds, Aussie Super, ART, they're well on their way to being $300 billion and beyond. In five years time, they'll probably both be $500 billion funds. Significant entities.

And importantly, within those funds they've got a large proportion of their membership in their MySuper options. So the concentration of investments in that MySuper means that they can better harness their cash flow, they can direct it towards the illiquid and unlisted assets where they most believe returns will be generated. To the second part of your question about the concerns about so much of the market concentrated in so few funds. Ultimately, it'll be how well they can execute on their strategies. Can they find sufficient investment opportunities domestically and globally? And that's partly why we're seeing them invest so much now to build out their capability globally. Because they're conscious of as they get bigger, they'll need to find more opportunities and they won't all exist here.

Speaker 4:

I suppose, particularly seeing a number of funds actually setting up offices in London and New York just about to capture those investment opportunities. Just a question here around actually investing. Will geopolitical considerations drive investment decisions going forward? I'm talking about obviously China, we had a speaker this morning talk about the challenges around China, Ukraine, Middle East, and how much do you think they are going to drive considerations around where Australian super funds direct their investments?

Steve Freeborn:

Well, I think the first thing to think about there is, Australian super funds are measured against your future, your super performance index that comprises a global index. To the extent that the global index comprises the various market allocations, that will likely dictate broadly where assets are allocated around the globe. Now within that, you then got issues to do with particular geopolitical situations. There was the Russian situation last year, and from a government perspective, funds were encouraged to divest their Russian assets. Now, fortunately, Russia was only a small proportion of the index, but there was no relief from the index performance. So come the your future, your super performance, or performance test, there was nothing to say, well, we are going to exclude Russia from that for our performance testing. So there's a bit of a quandary in terms of, how do you deal with some of these things?

Rochelle Hoffman:

And I would just add, from a low carbon perspective, I think just what's going on with electrification of fleet, where a lot of the core minerals are located that are needed to go into that. There's reserves in different parts of the world, but some of these areas of geopolitical hotspots right now are actually some of those prime locations. So just how we balance just all these different factors playing out I think is a really complex thing.

Steve Freeborn:

The same also goes to socially affordable housing. And should super funds be the asset pool to fund socially affordable housing? And if so, what's a return expectation for that asset class? And do you create a new asset class with its own return expectation? Because if not, you get measured against other property. And is it residential property, is it some other property asset class? And if so, how do you do it?

Rochelle Hoffman:

And the similar questions coming through in relation to certain states and their energy systems and opportunities there in terms of... Or questions, whether it's up to super funds or whether super funds have got that opportunity to go in. And I think Victoria had an announcement at the end of last year on that front

Steve Freeborn:

For sure.

John Bennett:

And that's right, it's obviously that question what the government posed last year to the super funds about, should they be directing more of the investments domestically? But as you've touched on through your presentation, the opportunities in Australia just don't... Well, they're not the opportunities for the weight of money that's coming into the system. So it's certainly a lot to think about. We might finish up with that.

Look, Steven, Rochelle, thank you so much for joining us today, and for your views on the future investment landscape. Look, all extremely thought-provoking, extremely topical. So thanks so much for your time today.