

The HUB

NEWS AND VIEWS FOR INSTITUTIONAL INVESTORS



Can UK pensions learn anything from the Aussie Super system?

The Australian system of scale, transparency and innovation could be a ready blueprint

It's just over 30 years since the introduction of the Super Act 1992 which transformed retirement provision in Australia. The super sector has grown from AUS\$150 billion at inception to some AUS\$3.4 trillion now, representing 160% of GDP.

It's a compulsory system so, unlike the UK, everyone is in. Mandatory contribution rates have steadily increased from 3% to 10.5%, with the aim of getting to 12% by 2025. Importantly, contributions now start from the first dollar of workers' income, with the AUS\$450 a month minimum threshold recently abolished.

It's a complicated system, particularly the tax rules, as Senator Nick Sherry acknowledges. The former Australian Government Minister has been a key player in shaping the Australian Super system. Originally involved in the creation of the Hesta Super scheme, which has now grown to AUS\$70 billion, he recently took up a position as chair of TWUSuper, a much smaller scheme, but one that is clearly eyeing mergers and consolidation to deliver scale.

Sherry took the time to join us at the Natixis office to explain how the Australian experience could help accelerate the development of a better pension system in the UK. The super system, he says, is itself changing fast to better meet the needs of savers.

There have been a series of scandals and issues, most notably in the retail sector where conflicts between advisers and providers saw poor outcomes and higher charges. A Royal Commission, which reported in 2019, was designed to get a grip on the problems by setting out the fiduciary duty that should govern the actions and decisions of trustees and providers.

In addition to these reforms, the supers are seeing consolidation amid a shift away from retirement solutions provided

through the retail/bancassurance model to public sector and industry-wide "profit for member" schemes (as opposed to profit for shareholders). Through this consolidation, we are now seeing the creation of mega funds. The largest – Fund Australian Super – now manages some AUS\$244 billion of workers' assets, while the Australian Retirement Trust has AUS\$232 billion, Aware AUS\$150 billion, and Uni Super AUS\$110 billion.

The growth in assets and trust in the system is also driven by good quality longitudinal data that shines a light on performance and fees over the 30-year lifespan of supers. That transparency allows for the splitting of admin and investment fees – an innovation that I'd like to see adopted in the UK.

Nick Groom

Head of UK DC Strategy & Sales,
Institutional Business
Natixis Investment Managers

Nick Groom has worked in UK pensions for many years and in different roles, mainly in DC for a number of companies including AXA, Liberty Pensions, Schroders, LGIM and now Natixis Investment Managers. He is head of strategy & sales for the DC channel and responsible for building out the DC franchise in the UK. His remit extends to creating appropriate solutions from the huge range of affiliate public and private strategies in the Natixis IM stable that are fit-for-purpose, develop a blueprint, and subsequently help leverage opportunities in emerging DC markets internationally.

The Aussie system also focuses on publishing net returns, rather than just listing costs and charges. This is healthy: while no one wants to see excess costs in the pension system, low costs shouldn't come at the expense of better outcomes and returns.

The scale that is being built up, coupled with transparency and an increased focus on "profit for member", provides opportunities to drive better value and better outcomes.

So what exactly are the Aussies doing with the incredible scale of their supers? Well, for me, a key takeaway from Nick Sherry was investment innovation. In particular, how do we answer the exam question of delivering equity-like returns without the associated volatility? The answer: infrastructure and productive

finance. But schemes need to invest in expertise to run and manage these types of assets.

Just take a look around UK infrastructure and the extent to which infrastructure assets are owned by Australian supers, whether directly or through a collective investment manager. To what extent do UK pensions schemes and providers invest in their domestic assets? To what extent do UK pensions invest in these assets overseas? I suspect you all know the answer.

There is a lot of good work going on within the industry and by government and regulators to unlock these types of asset classes. But pension funds will only invest in solutions that meet the needs of their members. This means getting the right risk-reward profile, at a reasonable cost, and solving the liquidity and daily trading conundrum.

So we need a pipeline of projects that are attractive, but we also need a change of mindset within the industry if we are to deliver better investment outcomes for

pension savers. A drive towards greater scale will certainly help, but we also need imaginative solutions that open up more asset classes to DC members.

Investing in a cheap as chips passive tracker is no longer acceptable if we are to deliver better outcomes for members. We can definitely learn a lot from the Australian experience of delivering bigger, better solutions for the benefit of all pension savers.

This material has been provided for information purposes only to investment service providers or other Professional Clients, Qualified or Institutional Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors. To obtain a summary of investor rights in the official language of your jurisdiction, please consult the legal documentation section of the website (im.natixis.com/intl/intl-fund-documents) **In the E.U.:** Provided by Natixis Investment Managers International or one of its branch offices listed below. Natixis Investment Managers International is a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris. **Italy:** Natixis Investment Managers International Succursale Italiana, Registered office: Via San Clemente 1, 20122 Milan, Italy. **Netherlands:** Natixis Investment Managers International, Netherlands (Registration number 000050438298). Registered office: Stadstemple 7, 3521AZ Utrecht, the Netherlands. **Sweden:** Natixis Investment Managers International, Nordics Filial (Registration number 516412-8372-Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. **Germany:** Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Senckenberganlage 21, 60325 Frankfurt am Main. **Belgium:** Natixis Investment Managers S.A., Belgian Branch, Gare Maritime, Rue Picard 7, Bte 100, 1000 Bruxelles, Belgium. **Spain:** Natixis Investment Managers, Sucursal en España, Serrano n°90, 6th Floor, 28006 Madrid, Spain. **In Switzerland:** Provided for information purposes only by Natixis Investment Managers, Switzerland Sàrl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich. **In the British Isles:** Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258) - registered office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER. When permitted, the distribution of this material is intended to be made to persons as described as follows: **in the United Kingdom:** this material is intended to be communicated to and/or directed at investment professionals and professional investors only; in Ireland: this material is intended to be communicated to and/or directed at professional investors only; **in Guernsey:** this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Guernsey Financial Services Commission; **in Jersey:** this material is intended to be communicated to and/or directed at professional investors only; **in the Isle of Man:** this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Isle of Man Financial Services Authority or insurers authorised under section 8 of the Insurance Act 2008. **In the DIFC:** Provided in and from the DIFC financial district by Natixis Investment Managers Middle East (DIFC Branch) which is regulated by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients or Market Counterparties as defined by the DFSA. No other Person should act upon this material. Registered office: Unit L10-02, Level 10, JCD Brookfield Place, DIFC, PO Box 506752, Dubai, United Arab Emirates **In Japan:** Provided by Natixis Investment Managers Japan Co., Ltd. Registration No.: Director-General of the Kanto Local Financial Bureau (kinsho) No.425. Content of Business: The Company conducts investment management business, investment advisory and agency business and Type II Financial Instruments Business as a Financial Instruments Business Operator. **In Taiwan:** Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 34F., No. 68, Sec. 5, Zhongxiao East Road, Xinyi Dist., Taipei City 11065, Taiwan (R.O.C.), license number 2020 FSC SICE No. 025, Tel. +886 2 8789 2788. **In Singapore:** Provided by Natixis Investment Managers Singapore Limited (company registration no. 199801044D) to distributors and qualified investors for information purpose only. **In Hong Kong:** Provided by Natixis Investment Managers Hong Kong Limited to professional investors for information purpose only. **In Australia:** Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only. **In New Zealand:** This document is intended for the general information of New Zealand wholesale investors only and does not constitute financial advice. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand. **In Colombia:** Provided by Natixis Investment Managers International Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia. This material does not constitute a public offering in Colombia and is addressed to less than 100 specifically identified investors. **In Latin America:** Provided by Natixis Investment Managers International. **In Uruguay:** Provided by Natixis Investment Managers Uruguay S.A., a duly registered investment advisor, authorised and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, Montevideo, Uruguay, CP 11500. The sale or offer of any units of a fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627. **In Mexico:** Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity, securities intermediary, or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. While shares of certain ETFs may be listed in the Sistema Internacional de Cotizaciones (SIC), such listing does not represent a public offering of securities in Mexico, and therefore the accuracy of this information has not been confirmed by the CNBV. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority. Any reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of its investment management subsidiaries, which are also not authorized by or registered with the CNBV or any other Mexican authority. **In Brazil:** Provided to a specific identified investment professional for information purposes only by Natixis Investment Managers International. This communication cannot be distributed other than to the identified addressee. Further, this communication should not be construed as a public offer of any securities or any related financial instruments. Natixis Investment Managers International is a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris. The above referenced entities are business development units of Natixis Investment Managers, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers conduct any regulated activities only in and from the jurisdictions in which they are licensed or authorized. Their services and the products they manage are not available to all investors in all jurisdictions. It is the responsibility of each investment service provider to ensure that the offering or sale of fund shares or third party investment services to its clients complies with the relevant national law. The provision of this material and/or reference to specific securities, sectors, or markets within this material does not constitute investment advice, or a recommendation or an offer to buy or to sell any security, or an offer of any regulated financial activity. Investors should consider the investment objectives, risks and expenses of any investment carefully before investing. The analyses, opinions, and certain of the investment themes and processes referenced herein represent the views of the portfolio manager(s) as of the date indicated. These, as well as the portfolio holdings and characteristics shown, are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material. The analyses and opinions expressed by external third parties are independent and does not necessarily reflect those of Natixis Investment Managers. Past performance information presented is not indicative of future performance. Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy, or completeness of such information. This material may not be distributed, published, or reproduced, in whole or in part. All amounts shown are expressed in USD unless otherwise indicated. Natixis Investment Managers may decide to terminate its marketing arrangements for this product in accordance with the relevant legislation.

> Find out more:
im.natixis.com/en-institutional

Natixis Investment Managers

RCS Paris 453 952 681
Capital: €178 251 690
43 avenue Pierre Mendès-France
75013 Paris
www.im.natixis.com