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Members First

Cbus has been a longstanding supporter of the building and construction industry. The fund is entering a new phase which will see that support come into its own in the changing super environment.

Images by Estelle Judah Photography

Cbus has a long and proud history of supporting the national building and construction industry. Since its establishment, the company has grown into a large financial institution in its own right, with more than 700,000 members and assets totalling over $23 billion.

As the fund for the construction industry, Cbus has strong links to its sponsoring organisations, including the Construction Forestry Mining and Energy Union, the Australian Manufacturing Workers Union, the Australian Workers Union, the Communications Electrical Plumbing Union, the Australian Council of Trade Unions, and the Electrical Trade Union. The organisation also has ties to employers, including the Master Builders Association and the National Electrical and Communications Association.

The CEO Magazine sat down with Cbus CEO David Atkin to discuss the ever-increasing legislation that continues to shape the super industry and how the organisation is remaining nimble during this formative period for the sector.

***The CEO Magazine*: What is your professional background leading up to and including your current position?**

David: I graduated with a masters in history and worked in industrial relations for 10 years. I then moved into working as the communications and marketing manager for STA, which was one of the precursor funds to Australian Super. After several years, I was recruited as the CEO of JUST Super, which was the industry fund for actors and journalists. After that, I was headhunted to be the CEO of ESSSuper, which was the merged fund of the Government Superannuation Office and Emergency Services and State Super. I had to put that fund together and establish a new one. After that, I was recruited to Cbus and I've been here for almost six years.

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> - David Atkin

Over the course of those six years, what have been some of the greatest challenges Cbus has faced?

The biggest challenge for all of us in the super industry has been to keep up with the rapid change. You've got the regulatory change, which is driven by the fact that we've got these compulsory cashflows coming into our funds. They're becoming increasingly important to individual members, and the money in those funds is only going to continue to grow. So there is a real expectation that we have best-practice regulation operating in our sector that provides the best-possible protection to consumers.

There's also been an issue around the fact that we're maturing as an industry. We've been very focused on the accumulation phase, and we now have the baby boomers starting to move into retirement. We need to develop our product and service offering to meet members who move into the draw-down phase, which is a very ›


different proposition from being savers in the accumulation phase.

Overlaid with that is the increasing competitive pressure from the banking sector around growing and retaining members. There's real convergence occurring in the wealth-management area and in the retirement space. There's very fierce competition for retaining your members as they move into retirement.

That's a lot to get your head around, so that's a precursor to me saying the biggest challenge has been taking a fund that has a very strong history and making sure that it's well placed to retain its relevance and strength moving into this competitive and changing environment. We've done a lot of work over the past six years getting the directors and the staff here to think about those external factors and what Cbus needs to do to position itself to successfully navigate through all of that. We want to retain control of our destiny, and that means embracing the change, getting ready for it, and adapting the organisation. We've now got a highly adaptive company that is capable of navigating through all of those challenges.

What drove the decision behind the adoption of the MySuper investment strategy? Has this changed the operational side of the company?

I think we were the second fund to get our MySuper authorisation. Once the strong super reforms came through, a decision was made to go hard and ready ourselves for the changing regulatory environment. We would seek to be one of the first funds to get our MySuper licence. A couple of things were driving that. When we looked at our own fund, we thought that our current default fund offering met the criteria of the MySuper requirements; but, more importantly, we felt that we wanted to show ourselves as being early adopters and leaders in making the transition to this regulatory environment.

This approach was based on a belief that there should be a high bar set for the industry around providing consumers with best-practice offerings, as well as very strong protection for your average, disengaged person who's not particularly interested. That's a generalisation, but most people aren't highly engaged with their super, particularly through the accumulation years.

It's critical that funds are providing the right level of transparency, the right level of service, the right products, and are operating with a very strong focus of understanding the risks in their organisation and navigating those well. By going hard and going early, we believed we would maximise the amount of time for us to understand the implications of the change and get our organisation ready to hit the ground running.

How will MySuper alter asset allocation within Cbus?

In truth, the MySuper requirements aren't going to change the way we go about asset allocation. We've done a lot of thinking around how we want to invest. Coming out of the GFC, like everyone, we were buffered by those external factors, and we were very conscious of the negative returns that were experienced by members through that period and how it was creating some real questions of confidence in the superannuation system.

There was some deep thinking undertaken with the directors and management where we went back ›

"Since 2000, Perpetual and Cbus have enjoyed a solid relationship built on trust, open communication, and a mutual commitment to achieving the best outcomes for members—an approach that has been fundamental to the growth and success of both businesses." - Matt Williams, Head of Australian Equities, Perpetual

to first principles around our role. Our job is to provide income replacement for members in retirement. It's about providing absolute returns over and above inflation. That needed to be our first and foremost goal: to be less concerned about peer risk and more concerned about making sure that we achieve that objective. That meant being prepared to step outside of the crowd if necessary. If we saw risks occurring externally in the economy, both here in Australia and globally, we were more prepared to move the asset allocation around in a more nimble and efficient way.

As a consequence of that, we've spent two years with the directors implementing a new investment strategy, which now positions the fund with stronger internal investment strategy capability and better protocols and delegations so we can move that asset allocation around much more quickly if we see risk changing in the external economy. That's been a very significant piece of work that has been rolled out, which has seen us double the size of our investment team and in-source investment strategy into the organisation. That's a new capability within the fund that we didn't have two or three years ago.

In expanding your investment team, what are the key things your company looks for when bringing new people into the organisation?

There are lots of very technically capable people who operate in our industry. One of the challenges for us is that we've significantly increased our resources across the fund over the past two or three years as part of that getting ready for the new world.

"Cbus Super and Macquarie Private Markets share a terrific relationship. The longevity of our association speaks to the partnership approach David has instilled in his investments team. Through difficult investment markets, we have worked effectively together for Cbus Super members." - Michael Lukin, Head of Private Markets, Macquarie Investment Management

In the investment team, we've been out to market. We went into that recruitment process not sure whether we'd be able to attract the talent that we were seeking, particularly because we're not prepared to compete with the high salaries that some people are paid in the investment world. But we've been pleasantly surprised: people have come to work here because they want to work in an environment that is all about the members. It's not about shareholders; it's about providing benefit back to the members. They want to work in an environment that is highly supportive and stimulating.

We're looking for people who want to understand what Cbus is about and want to make a difference for our members. They've got to have that alignment because it's about the greater good. We also look for employees who want to work in an environment where they can use their talents and develop innovations. What we're seeking from our investment team is the ability to think outside the box, to join the dots across the different sectors, and see opportunities that others aren't necessarily finding.

So you need to be in an environment that is highly stimulative and supportive, and encourages people not to take excessive risks; it's about using information across different areas of expertise. You often find investment teams become siloed in their particular area of expertise as you build them. We want to create an environment where people share ideas and intelligence in their area of expertise with other parts of the investment team.

What is the nature of the relationship between Cbus and Cbus Property?

Cbus is unusual. In a lot of ways, we look like other industry funds in terms of small trustee officers, outsourced relationships with administrators, insurers, and investment managers. However, what is different about Cbus is the fact that we have our own wholly owned subsidiary—Cbus Property—which is our manager focused on property development. It's about leveraging off the insight and understanding that we have our own sector that we operate in—building and construction—and using that intelligence to invest in a smart and sensible way.

Cbus Property has its own independent board with an independent chair. It does have Cbus Super directors appointed to that board. Cbus Property develops its business plan that is required to be signed off by the Cbus Super board. There is a lot of collaboration between Cbus Super and Cbus Property. One of the benefits of having Cbus Property is that, unlike other fund managers, it doesn't need to sit on the assets. If Cbus Property sees an opportunity to sell assets when the market is turning, they're able to do that knowing that that money will come back to the fund and the fund will support them to look for new ›

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- David Atkin

opportunities and return to the market when it's appropriate.

The other thing is that Cbus Property has been able to use the confidence of having the superannuation fund behind them to play a very active role when times are tough. For example, through the GFC period when financing was very hard to secure, Cbus Property was very active in looking for development opportunities, which was very important for the membership because we've got this virtuous service. Members really like the fact that their fund is investing back into their industry, creating jobs, and creating profits for them.

Cbus Property has been able to do that very successfully and create a very strong record of performance. Since 2005, Cbus Property has returned something like 13.8 per cent per annum over that period, which is a really strong record. The company has also created 34,000 direct jobs and more than 55,000 indirect jobs through the developments they've been able to get off the ground.

What does the future hold for Cbus Super?

We want to retain control over our future, so we need to continue to grow. We continue to look for opportunities to partner up with other funds that are operating in our sector. That will only happen when it makes sense for all parties and they can come to a consensus. That is something that is active on our agenda.

We need to fundamentally move from being a fund that's very good at supporting our members while they are at work to supporting them when they transition into retirement. Determining how we are able to evolve into a fully mature from-cradle-to-grave proposition where we are able to support the members in the draw-down phase is a very big adjustment, because we haven't been focused on that over the past 25 to 30 years. We need to determine how we can do that when we know that our members are coming into retirement, have built up their nest eggs, and are highly attractive to the for-profit sector. We also need to decide how we can retain those members when they are talking to their accountants or going into local bank branches and are being encouraged to leave the fund. Our biggest challenge is to retain those members and support them into retirement.

"ME Bank is proud to work with Cbus, one of our largest shareholders, to help their members achieve better financial outcomes through their working lives and in retirement." - Jamie McPhee, CEO, ME Bank

The second major challenge, on a more macro level, is the size of the superannuation industry. The industry is about $1.6 trillion at the moment; it will be $3 trillion before you know it, and $5 trillion by 2020. There will be increasing expectations from policymakers and the community about the role and purpose of super. There will be increasing questions about tax concessions and whether we are playing our part in supporting the local economy.

We want to retain control of the way we invest. There are debates saying that super should be used for affordable housing, infrastructure, or supporting the transition from science and technology R&D propositions into commercial propositions. I think a real challenge for our sector is to actively work through each of those issues with policymakers in a proactive, problem-solving way, but in a way that doesn't result in Cbus deviating from our sole purpose—which is to maximise members' retirement—and which doesn't see a policy response from governments that starts to try to constrain the way we invest.

For example, there are debates around infrastructure, saying, 'There is a big infrastructure pipeline; superannuation should be doing more'. About 11 per cent of our assets are already in infrastructure, so we're already active there. But we know and we're encouraging government to say, 'Give us the projects; we're prepared to fund appropriately risk-adjusted projects'. The problem is that the pipeline is not actually there. So that's just an example of a discussion that needs more work with government.