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Shaping Superannuation

State Super is playing a prominent role in the superannuation sector as major changes influence the way it and other funds are managed.

Images by Scott Ehler

As one of the largest super funds in Australia, State Super is shaping and leading the industry as dramatic changes sweep across the superannuation sector. John Livanas, CEO of State Super, says he and his team are already addressing the future challenges and complexities facing the industry.

“We manage the investments and accounts of nearly 120,000 retiring and retired public service members. It may not sound like a big deal, but if you consider that we manage more than \$40 billion worth of assets and that our wholly owned subsidiary, State Super Financial Services (SSFS), manages another \$14 billion, you

quickly realise that with a collective \$54 billion under management, we’re one of the largest super funds in Australia and one of the top 100 funds in the world.

“It’s a fairly significant organisation, and the challenge for us was how we manage this. How do you manage the welfare of the members on one hand while also assisting the New South Wales Government in meeting its obligations from a liabilities perspective?”

“Furthermore, we are in a stage of very significant outflow. From our funds of \$40 billion, we pay out around \$5 billion a year while only receiving contributions of about \$2 billion. This means, in

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- John Livanas

order to maintain our capital, we have to make up the difference through investment returns. Of course, if we fail to achieve the investment returns required to maintain our capital base, then we will have a smaller capital base on which to earn the same dollar amount of returns in the future. This makes us extremely sensitive to market movements, and in effect makes us a long-term investor who is investing over short-term increments.”

While this is currently unique to negative cashflow funds like State Super, John warns it will be an issue for the broader super fund industry in Australia in the next couple of decades as the amount of outflow becomes greater than the amount of inflow. Managing funds >



in outflow is also an investment challenge faced by financial planning organisations.

“You have to manage these funds in a very different way. You need to solve for negative cashflow and for dollars earned rather than a percentage return. We’re meeting this challenge through our investment process and resolving many of the issues 10 to 20 years before most of the other large accumulation super funds will need to.”

Taking on this complex challenge has been an invigorating task for John since he joined State Super in October 2011 and initiated a significant change program.

“Michael Carapiet, who was previously the chair of Macquarie Capital, was appointed as chair of the STC board and was looking for State Super to take on a more active role in managing the assets as well as managing the members. The board hired me a few months later, and I had the mandate from Michael and the board to undertake a fairly significant change program.

“We’re just finishing that first change program, and we’re about to embark on another. It took until early 2012 to get the plan for the first program cemented and approved, and we’re still running with that. We’ve pretty much achieved what we set out to achieve, which was to effectively change the way we manage the fund’s assets. This included changing our investment team, processes, and structure. It affected other services as well because you can’t modify the way you do investments without also modifying the systems around it”

John says that another big task was managing member expectations and experiences. “We outsource all our member administration to Pillar, and they carry out most of the back-office functions for our members. We also have a relationship with SSFS.

“While we were building the team in terms of investments, we were also building a team that would



oversee Pillar and SSFS and work much more closely with them for the interests of our members. In early 2012, it was quite clear that trying to manage \$40 billion of assets would no doubt require the hiring of additional resources in order to enhance the skills and capabilities of the excellent team who were already at State Super, so we started the recruitment process.

“Our expectations were that the investment environment going forward was expected to have significantly increased levels of volatility and uncertainty, at precisely the point at which our outflows increased and the pattern of investment returns became more critical. Consequently, we needed to enhance our investment team by providing a broader level of skills and capabilities, such as risk management, downside protection processes, and portfolio construction.”

To meet that need, John had to build upon his existing investment team and started the process of hiring additional skilled and experienced people. “Our principal approach was to say, ‘We have a mature organisation that’s about to go through tremendous change. It has been a very good custodian



and manager of its existing assets, and now needs to build a new set of capabilities? We didn’t have the time and opportunity to build that capability internally, so we had to build the team from the top.

“What we were looking for was a group of people who would share the board’s and my vision in terms of where we wanted the organisation to go and who already had the skills and competencies we needed. That was a deliberate strategy; it meant I had to convince people that the reason they were coming to State Super was for the intellectual challenge, not necessarily for a career leap.

“In order to do that, we had to quickly build a team in a >

“Since we opened in 1990, we’ve helped thousands of STC members achieve peace-of-mind in retirement. We are committed to helping people plan for and then realise the financial and lifestyle outcomes they seek when they retire.” - Michael Monaghan, Managing Director, State Super Financial Services

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"Our relationship is based on strong team work in achieving sustainable industry leading returns for the investors of State Super. State Super is very supportive of our activities and we value the opportunity to provide assistance within their broader investment environment." - Gary Adamson, Chief Operating Officer, Platypus Asset Management

collegiate environment. We brought in expertise through people like Mark O'Brien, who was CIO of AMP Capital; Lianne Buck, who had run infrastructure assets for Challenger, Macquarie, and Hastings; James Murray, who managed fixed income at AMP; Peter Laity, who had been the CIO at ESS Super; and Belinda Lawn, an experienced people manager from Macquarie. We recruited people in very senior roles and we were able to have free reign to build and solve for this challenge.

"It took us 18 months to build the team while also transitioning to a new way of doing business. Of course, the excitement of joining the team creates its own motivation. However, the challenge then is to maintain that motivation and develop respect and understanding within the team. At the same time, we were also building our investment operations capability and brought in Melanie O'Rourke

as General Manager Investment Operations, and Anna Lowe as COO, who had spent years in similar positions at CGU, American Express, and Legal & General Life, to support the investment team in achieving their objectives."

Over that 18-month period, John says, the team established processes and put structures in place to allow the investment team to manage the fund in a more considered way. John states, "This involved recasting the portfolio according to a new set of measures, and putting a new downside protection program in place. We're averse to markets falling, so we've got processes in place that aim to prevent us losing money in down markets. In order to do that, we look to have the appropriate information available on time, and the capacity and capability to alter the portfolio risk exposures as required, within appropriate governance and risk management.

"There were several extremely important factors to this including contemporary signals, internal communication, processes, openness to frank debate, and understanding that, as a small organisation with very smart people, you need to provide a governance framework that enables them to move quickly. And, of course, part of the story is to embed appropriate risk management. We did this in two ways: first, by developing an investments risk system, which uses a combination of FactSet and Northfield. This enabled us to look through our investments and understand the underlying risk factors and their correlations. Second, we started putting an organisational risk system in place to enable us to manage operational and other risks. Having those risk frameworks in place actually allowed us to negotiate greater delegations of authority within the organisation.

"After two years, we've built a team that is really flying. We've achieved double-digit returns for the past two years, and have done so with relatively low risk. Our key objective remains unchanged—to achieve absolute returns and ultimately full funding by 2030."

John and his team are already working on the next potential change for State Super, which contemplates the amalgamation of some of the fund's management activities of State Super, Safety, Return to Work and Support Division (SRWSD), and NSW Treasury Corporation (TCorp) within TCorp.

"What we're investigating is to further outsource parts of our function to TCorp, which will bring together the skills of a number of New South Wales entities who manage investments, in order to further enhance our collective capability and benefit our members. This is the development of a collaboration

"We're flattered that the majority of the investment team in the new TCorp is likely to be our people. We'd effectively be embedding our team within TCorp so as to create an exciting new organisation for New South Wales and something we can all be proud of."

- John Livanas

process we started two years ago. I'm on the steering committee that oversees the amalgamation project, and have been heartened by the support and commitment of all parties.

"We are working with TCorp to build an entity with the capability to manage the state's assets, not just the assets of the three large funds, but progressively the funds of other enterprises as well. Quite frankly, you have a lot of smaller government organisations out there who are managing a lot of money. Wouldn't it be better to use our collective experience and knowledge to manage this money? That's the idea behind the amalgamation project.

"From our perspective, we're flattered that the majority of the investment team in the new TCorp is likely to be our people. We'd effectively be embedding our team within TCorp so as to create an exciting new organisation for New South Wales >

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manage. Our first change was all about bringing in new people and building new processes; the goal was to get the right personalities, skills, and experience to achieve a vision of building a world-class organisation.”

According to John, the next set of changes may be quite different, but, as was the case previously, ensuring State Super has the right team will be crucial. “The amalgamation means that the skills required at State Super going forward may be subtly different. It may be more about managing outsourced suppliers, retaining a strategic focus, and project management. We’re not changing people; we’d be rebuilding their skills in critical areas through a new change-management process.

and something we can all be proud of.

“However, for State Super it means that this may be another massive change which we’re now starting to

“Change can be difficult for anyone, and managing ambiguity within the change process is hard. Communicating frequently does help, and we’re doing this.

However, equally important is the need to create certainty where possible by being decisive when you can. We are still in the process of this change, but by the end of this we’d have a State Super that is more of a head office, managing the outsourcing of certain functions, and yet remaining fully accountable for investment returns and member experiences.

“As the organisation evolves, State Super’s strong relationships with its suppliers, partners, and government will ensure we continue to deliver. Last financial year, we delivered an equivalent return of close to 14 per cent for the government, and in 2012–13 we produced an equivalent return of approximately 20 per cent. In both cases, we did it with far less risk than one would expect with a growth-oriented portfolio.”

John also talks about State Super’s nearly 120,000 members who rely on it to provide them with either a lifetime pension or a lump-sum retirement benefit. “In terms of our member services, our members love us. We manage member account administration through Pillar and provide access to financial planning through SSFS. We’ve made huge changes in the way we manage member experiences through Pillar and SSFS. Around a year ago, we hired Nada Siratkov, who had previously worked at Aon, to head up this division. The member research results have been great!”

John summarises by saying, “We’ve achieved a lot of great success to date and have built a team that’s helping to transform State Super into a world-class organisation. We’re now planning how to continue building on our successes.”

With a successful internal change program completed and a stimulating change program underway, John believes State Super will meet and exceed its present and future challenges with its talented team and ingrained expertise. ●



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