

SUPERANNUATION INDUSTRY ISSUES

How will you respond
to this year's challenges?



Riskwise
Professionals

SUPER
Recruiters

WELCOME

The pace and poignancy of change has certainly heightened in the past few months; spurred on by new leadership in the US as well as increasingly innovative ways organisations are using technology. If Amazon (soon to hit our shores in a big way) can sell cars online, while Alibaba has become the world's biggest e-commerce player from a zero base, what might these organisations - and others - do to disrupt our superannuation and investment industry?

How will you address the major challenges and technological changes we all face?

To better determine what lies ahead, we joined together to snapshot our industry and are pleased to present you with the results *Superannuation INDUSTRY ISSUES 2017*.

Our research identified several notable trends:

- 77% of respondents expect this year will be better for them and their organisation compared to last year.
- Organisations are concerned about volatile markets and market returns, digital disruption and increasing competition – as well as the affects of Donald Trump.
- Major risks were identified as reputation damage and cyber crime.
- Some 75% of organisations don't have clarity on how to best address digital disruption.
- Few asset allocators have determined what will likely be the best-performing asset classes during the Trump era – though expect it will have something to do with infrastructure.
- 50% of the industry expects to hire more people this year – particularly in sales and marketing with modest increases in administration and support staff.
- The top employee challenges are considered to be cultural fit and helping employees keep up with the pace of change.

By asking where the industry is heading, drawing a line in the sand and then working together we can better overcome the coming challenges and maximise opportunities for us all - whether as an asset owner, manager or investor.

We hope you find this report useful. If you would like any further information please contact us.

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EXECUTIVE OVERVIEW

There is a range of trends, themes and issues ahead that the industry believes it will need to address this year.

Rising risk profiles

Respondents are most concerned about volatile markets and performance returns. This is the third year in a row that market returns have been at the top of industry concerns. Other potential risks were identified as digital disruption and increasing competition, reputation damage and cyber crime, all in a world underpinned by a new US administration.

Digital disruption

Most organisations are at a loss as to how they should face digital disruption, new technology and technical applications. Many, but unfortunately not all, recognise that if they don't transform they could go the way of Kodak's demise in the photography industry. The solution favoured by several institutions is to try to buy their way out of this challenge: either by acquiring a start-up or buying a disruptor. But none can afford to acquire Amazon, so they will have to rethink a different strategy. A few have opted to create their own disruptive subsidiary and engaged experienced transformation consultants/panels to assist them.

Which asset classes?

Few asset allocators have determined what will likely be the best-performing asset classes during the Trump era. There are at least two that could out-perform over the next few years. One is through increasing focus and investment in disruption, while another is how to best access the infrastructure that Trump seeks to increase spending on.

People versus technology

Despite the focus on technology, ours is still a people industry, and half of the industry expects to hire more people this year. The areas where the most jobs are expected to be are in sales and marketing as well as administration and office support. Just as with technology, it is also the quality of people that makes a difference and provides a competitive advantage. This partially explains why the biggest employee issue is considered cultural fit and helping employees keep up with technical change. Not surprisingly, we forecast human resources departments will be even more stretched this year.

The industry is more optimistic

Despite all these challenges, three quarters of respondents expect this year will be better for them and their organisations compared to last year.

What do you think lies ahead for the rest of 2017?

Compare your views with those of the industry on the following pages.

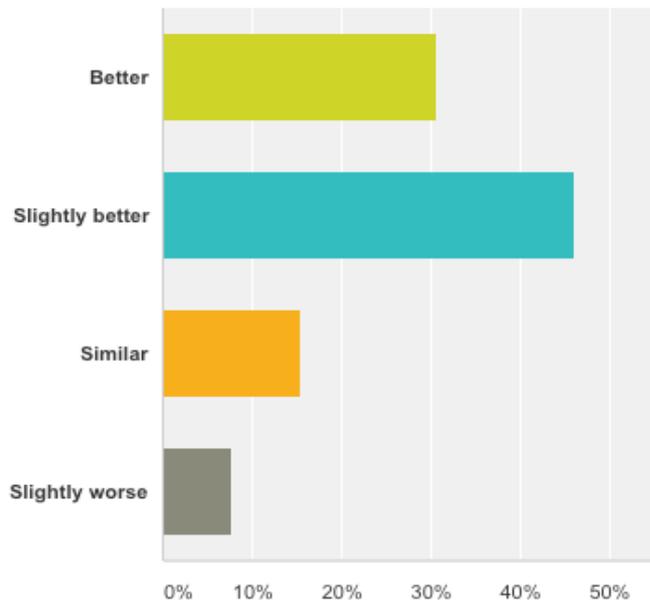
A CHANGING WORLD: A WORLD OF CHANGE

Looking at the news you can't but be overwhelmed by change. Items about new scientific discoveries, new technology and technical applications, new trends and new competitors.

Despite all the change around us, we are an optimistic industry. Over three quarters of you say you expect this year to be better (31%) or slightly better (46%) than last year.

One-in-six (15%) expect it to be similar to 2016, while just 8% expect it to be slightly worse.

How will 2017 compare to last year?



Source: SUPER Recruiters 2017

Despite the generally optimistic outlook, we are realists and also recognise that there are several challenges to be faced. Some we can take action on, others we cannot.

For instance, obtaining consistent returns remains the industry's greatest challenge, concerning more than a third (38%) of us. This has been the top challenge for the industry over the past three years.

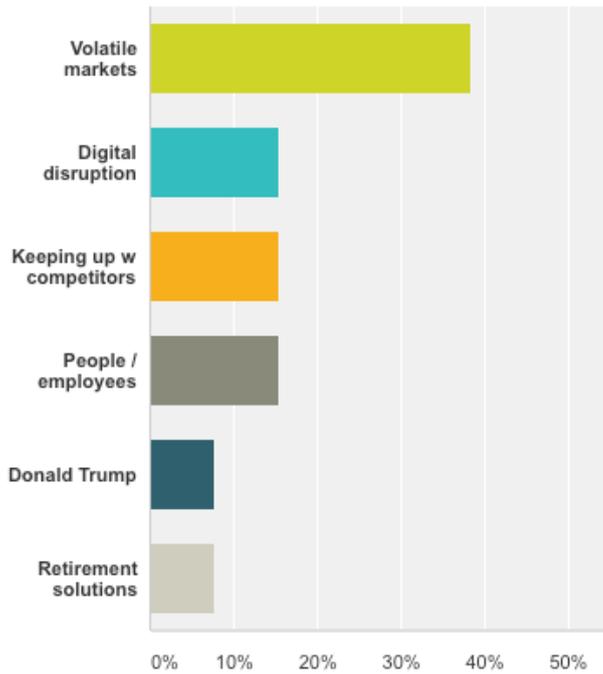
This was followed by others, including:

- Digital disruption,
- Keeping up with competitors, and
- Employees.

Each scored equally (15%), worrying almost one-in-seven respondents.

The affects of the new US President rated alongside developing retirement solutions; each concerning 8% of respondents, see below.

What will be the single biggest issue for our industry this year?



Source: SUPER Recruiters 2017

Interestingly, the adoption of new technology – such as robo advice – didn't rate among respondents, scoring zero votes. This may suggest that many in our industry are aware of this issue and it is now more about how to best harness and implement such technology for maximum benefit.

DIGITAL DISRUPTION

With the increasing focus on digital disruption, it is concerning that a quarter (25%) of respondents said they were “uncertain” about how to deal with this challenge. This suggests that there is still a large part of our industry that needs to come to grips with this challenge, lest they be left behind and potentially to the detriment of their members / investors.

In contrast, another quarter correctly identified that the true focus of digital disruption should be on how to better serve their customers, with technology being the enabler to realise this.

A further quarter saw spending money as the solution, either acquiring a start-up, buying a disruptor or creating a disruptive subsidiary.

Some respondents specifically cited their approach as:

- *“transforming our in-house digital capability”*
- *“watching carefully and catching-up fast”*
- *“be a close follower as opposed to be at the leading edge”.*

Transformation professionals interviewed for this report cited how creating a disruptive start-up needs to be clearly separated from the owner’s main business if it is to have a chance of success and consumer engagement. They also noted that to be most effective a disruptor needs a clear “social purpose” that addresses a community issue. They also noted that the majority of start-ups (almost 95% source Australian Transformation and Turnaround Association) were generally not revolutionary, but rather improved on the service delivery of other established organisations.

However, the use of experienced external consultants was favoured by just one-in-eight organisations (13%). One respondent suggested that identifying proficient external help is the key: *“We will work with external partners to build bespoke member engagement models”*, said one respondent.

How do you see the way forward through digital disruption?



Source: SUPER Recruiters 2017

TECHNOLOGY VERSUS PEOPLE

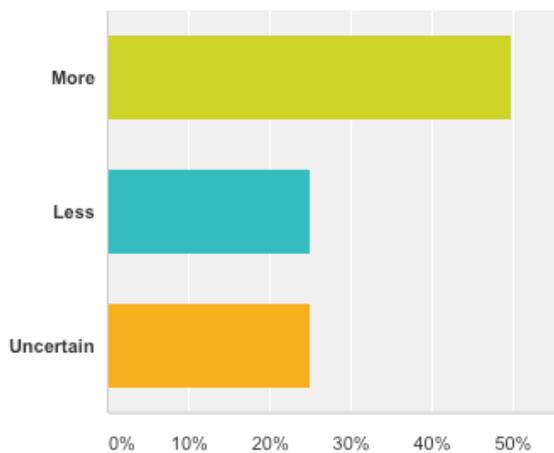
Despite the focus on technology, ours is still a people industry, and you are expecting to hire more people in 2017.

Some 50% of respondents expect to employ more people this year, compared to the previous 12 months.

In contrast, less than a quarter (22%) expect to reduce their headcount.

Another quarter are uncertain about their hiring prospects, as shown below.

Hiring more or less people this year?



Source: SUPER Recruiters 2017

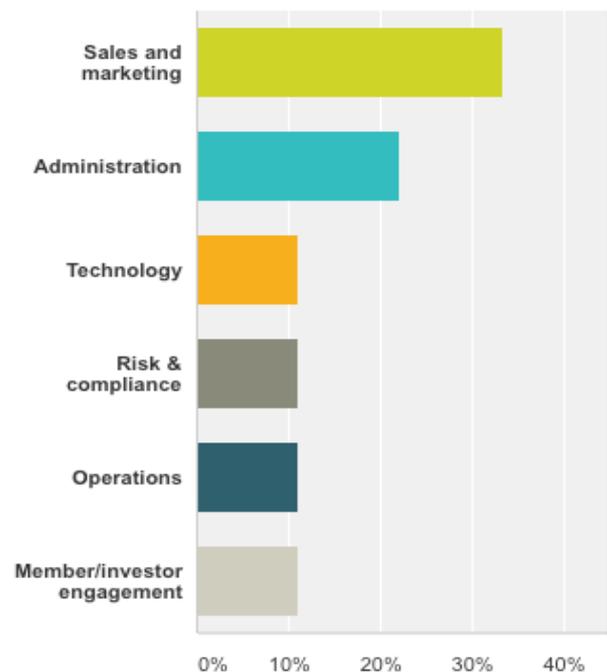
Where will the jobs be?

Respondents suggest the greatest job growth will be in sales and marketing - as many organisations try to grow their inflows.

Respondents also expected to add administration and support staff.

The areas of:

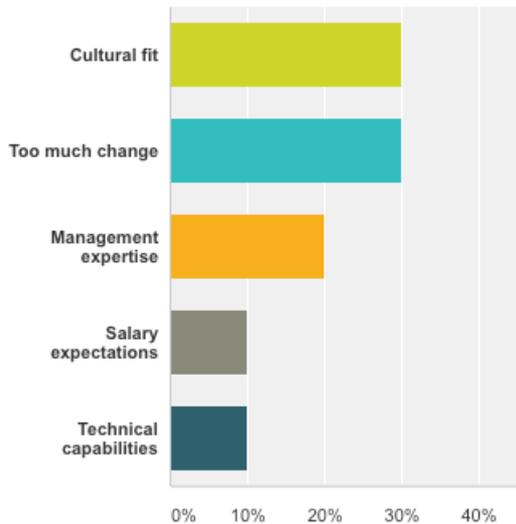
- technology,
 - risk and compliance,
 - operations, and
 - member/investor engagement
- were also expected to add more people.



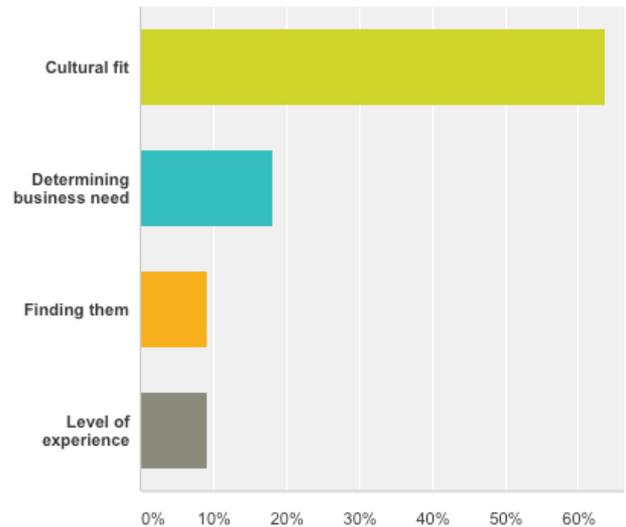
Just like finding the best technology to meet digital disruption, so too is finding the best people a challenge for organisations.

Respondents cited identifying candidates with an appropriate cultural fit for their organisation as their greatest people, as well as, employment challenge.

The single biggest people / employee issue



The greatest recruitment challenge



Source: SUPER Recruiters 2017

Respondents also noted that their employees are increasingly becoming “*resistant to changes with technology*” and how HR departments should deal with this was identified as another major challenge.

More changes at the top than ever before

This summer was one of the busiest times in terms of changes in leadership positions among asset owners and managers.

Given the changes in CEOs, we expect boards will try to remain more stable this year. But it has not been a good start, with several CEO departures already.

Research provided for this report by *Industry Moves* found there were the greatest number of moves among board members last year within recent years, with 48 departures compared to just 33 the previous year in the superannuation industry.

Board Positions - Comparison 2013-2016

	Reported Moves			Appointments			Departures		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
2016	170	78%	22%	122	67%	33%	48	63%	27%
2015	97	75%	25%	64	53%	47%	33	70%	30%
2014	125	83%	17%	84	65%	35%	41	85%	15%
2013	104	73%	27%	76	72%	28%	28	75%	25%

Expect an increased focus on social purpose

Respondents also expect to see a greater focus on 'social purpose' among boards, senior management, marketing and HR departments as younger members / investors increasingly express interest in what organisations stand for – especially in the areas of social conscience and responsibility.

We proffer that this is in part a backlash/balance to what has happened to politics in America. It is worth viewing the Trump phenomena in a social and psychological context, whereby many mature voters in middle America are most concerned about their security, in particular job security as they age. This psychology is a key feature of Maslow's hierarchy of personal needs. In contrast, younger generations often have this need met courtesy of their parents and are more interested in meeting their 'higher' need for self esteem and seek to create a sense of worth by increasingly engaging in promoting social purposes. This shift will increase as more of them reach voting age and move into positions of influence. We contend that our own industry needs to be aware of this shift and each organisation needs to identify its own unique social purpose beyond providing for the retirement of its members / investors.

Our research also identified several other people trends in our industry for this year.

Improved candidate and employee experience: almost 60% of job seekers report they have had a poor candidate experience with employers. Many of them have shared that experience online, damaging the organisation's reputation. Have you checked how you rate in this respect? Most HR departments haven't.

Tenure: the average tenure for employees, regardless of age, is just 4.5 years in the United States and seems similar here. A majority of millennials are reported as leaving after just two years. This is why we expect to see a refocusing on 'older' employees this year.

Young, older or blended work force? The latter would seem to be the obvious solution, but it is often difficult to implement, with younger managers often threatened by those more experienced. Programs that see the latter share their wisdom with younger teams are key in this respect; but are hard to find let alone implement for a busy HR department.

Increasing teamwork: we predict an increased focus on teams and teamwork, which can reduce the risks when a star performer departs or is head-hunted. It can also slow the rise of internal politics. We all know that high performing teams always outperform individual stars.

Greater alignment with customer needs: expect to see roles and responsibilities become more aligned with end-customer needs, rather than just those of the organisation. This is often stated as an aspiration, but seldom achieved.

WHICH ASSET CLASSES NOW?

Financial markets have bounced up and down following President Donald Trump's ascension to the White House. Asset allocators and forecasters are struggling to determine where to invest given a more volatile leadership.

Some suggest assets such as infrastructure. This is due to statements by Trump that he will offer US\$137 billion in Federal tax credits to firms that back transportation and other infrastructure projects. It is estimated that this will unlock \$1 trillion in infrastructure investment over a 10-year span.

However, many investors bemoan investing in an asset class which is known for requiring long-term commitment and not being able to withdraw funds quickly, especially if the political environment changes suddenly.

Our research among fund managers suggests that the asset class, at least initially, to be invested in under the Trump presidency is listed infrastructure.

This provides exposure with the benefit of liquidity. Listed infrastructure provides the ability to capture the forecast growth in US infrastructure development, with the flexibility of listed investments – providing a way to jump in and out of the asset class should the political environment change suddenly.

Fund managers also noted that the fundamentals of this asset class are solid. An estimated US\$57 trillion is forecast to be invested in global infrastructure by 2030. Global listed infrastructure is where global real estate investment trusts (GREITs) were 20 years ago.

As one fund manager said, "Global listed infrastructure offers defensive growth as well as being attractive. It can provide strong cash flow characteristics, with the cash generated by the underlying assets providing investors with stable, reliable and growing income. This stability means reliable dividends that grow at attractive rates, often above the level of inflation."

Another segment that is expected to increase in popularity, if not overall performance, is expected to be investment funds that focus on disruption opportunities.

But a key is to not focus on technology alone. For example, local fund manager Loftus Peak's Global Disruption Fund highlights the need focus on customer and distribution disruption. As it says: *"Technology, by itself, may help productivity, more important is the disruptive business model which has created the wealth. Disruption uses technology, because it makes for a better business. But truly disruptive businesses have no use for useless technology."*

Source Loftus Peak.

RISING RISKS?

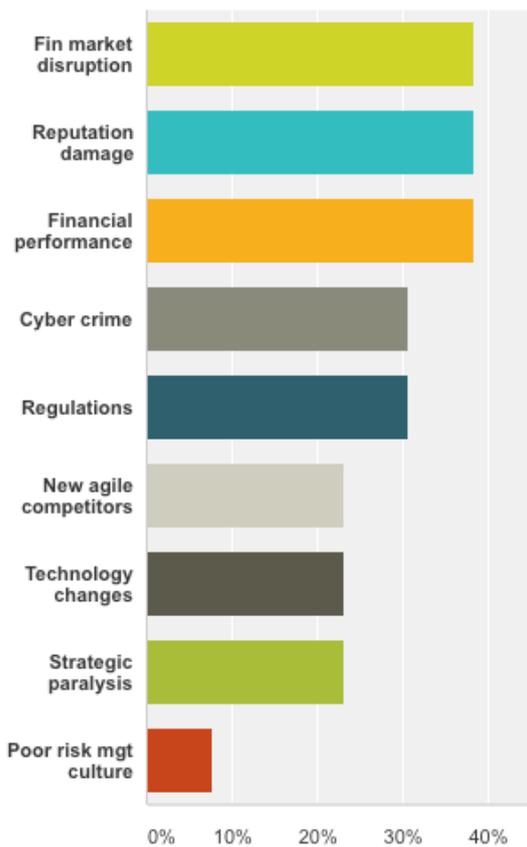
Volatile markets and market disruption, resulting in poor financial performance, are again considered the main risks to the industry this year, concerning over a third of respondents (38%).

Reputation damage ranked equally concerning, for another third (38%), as shown below.

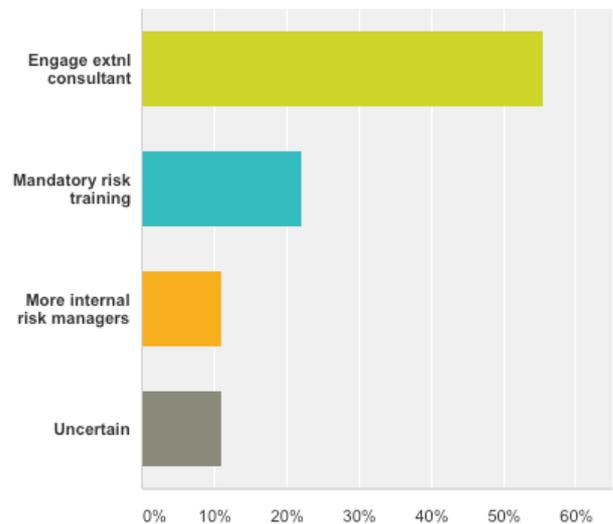
Reputation damage is often typically caused through front line staff not having clear unambiguous instructions, training and understanding of product disclosure requirements and superannuation rules. This is particularly relevant given the high profile cases of inappropriate advice ascribed to predominantly bank-owned or franchised distribution channels.

As management should know, embedding a proactive culture of risk goes a long way to lifting the game. Improving an organisation's culture of appropriate selling practices should be high on the agenda.

The main risks facing our industry



How to best prepare for risks



Source: SUPER Recruiters 2017
 Note: more than one choice was available – so does not add to 100%

Interestingly, fraud was not considered a major risk by those surveyed.

The strong response for accessing external expertise would suggest that organisations are not solely comfortable with their current level of risk preparedness and/or the frameworks under which they operate.

Respondents also suggested building stronger controls into investment processes, in particular automating processing technology to better identify risks. A robust, yet flexible, risk framework was also suggested as being key to improving this area.

CONCLUSION

When specifically asked what are the main areas that their organisation needed help with this year, respondents suggested:

1. Sales and marketing – to ensure that their organisation is best promoted, best recognised and differentiated from competitors and new entrants.
2. Leadership development – to ensure senior management have the skills to meet the challenges sparked by digital disruption.
3. Product development – to ensure that their members / investors have the best solutions, especially in retirement.
4. Change management – to implement the plethora of regulatory and competition-driven changes, and
5. Implementing strategic priorities – assistance with implementing their organisation's objectives in a measured, controlled and risk-managed manner.

All the challenges identified by respondents and highlighted in this report are not insurmountable. Once recognised by management, it is possible to address them. There are plenty of good people out there willing to help. By working together, innovating - and above all - transforming our focus on what customers want, need and value. This will deliver results.

ABOUT THIS REPORT

This research was undertaken by SUPER Recruiters and Riskwise Professionals between January and February 2017. Respondents to the quantitative survey totalled 30 industry professionals, including leaders and senior management of asset owners and managers. All responses were provided anonymously. Fund managers were interviewed separately.

For further information

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