
Pension Fund Collaboration in Australia: The Industry Super Holdings Model

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Outline

- Evolution of Industry Super Funds
- Examples of Collaboration
- Industry Super Holdings:
 - Structure & Activities
 - History and Development
- Collaboration Lessons
 - Benefits of collaboration
 - Achieving collaboration
 - Maintaining collaboration



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Industry Super Funds Background

- 1984 First Industry Super Fund established
- 1986 Employer Super contributions under wage awards rather than wage increases
 - led to growth of multi-employer, industry based, not for profit, representative trustee model, funds
- 1992 Superannuation Guarantee – all employees covered
- 2002 Required contribution reached 9%
- 2005 Introduction of Choice of Fund
Increased transition to Public Offer Status



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Super Developments

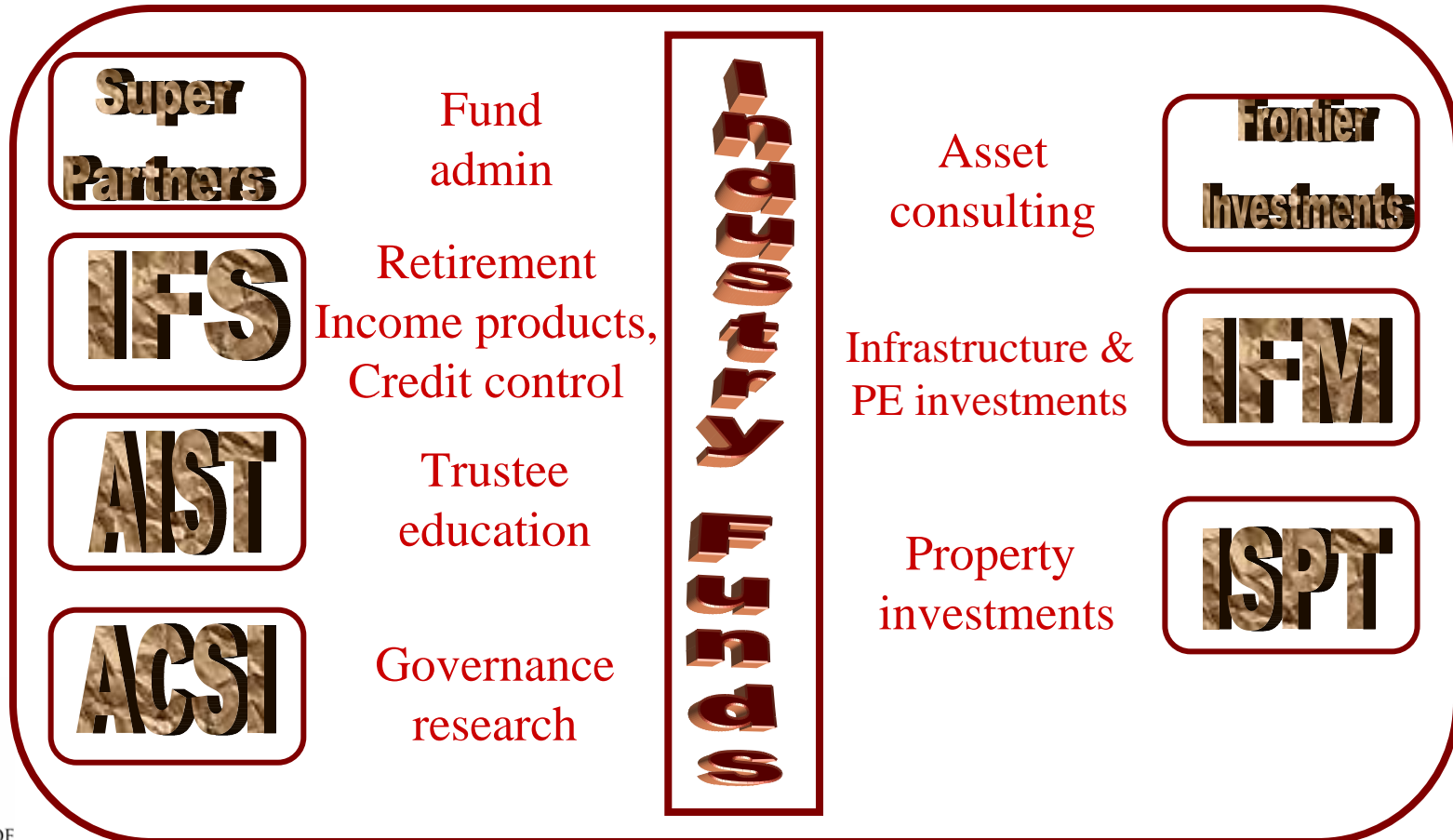
	Jun 2008		Jun 2001	
	<i>Assets \$b</i>	<i>Entities</i>	<i>Assets \$b</i>	<i>Entities</i>
<i>By fund type</i>				
Corporate	62	228	68	3,224
Industry	199	72	61	150
Public sector	170	40	102	81
Retail	342	166	158	275
Self-managed super funds	358	387,936	80	219,064
Other	41		50	
Total	1172		519	



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Keeping it in the Family

Services available from fund owned/related providers



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Industry Funds Collaboration

- ACSI, Australian Council of Superannuation Investors
 - Research etc re corporate governance in investee companies
- AIST, Australian Institute of Superannuation Trustees
 - Membership body, trustees/staff; Training, education, advocacy
- ISPT, Industry Super Property Trust
 - Trustee Co owned by 3 funds
 - Recent merger of 2 of 4 original 1994 founders
 - Trusts have approx 60% of major funds' property investments



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Industry Funds Collaboration

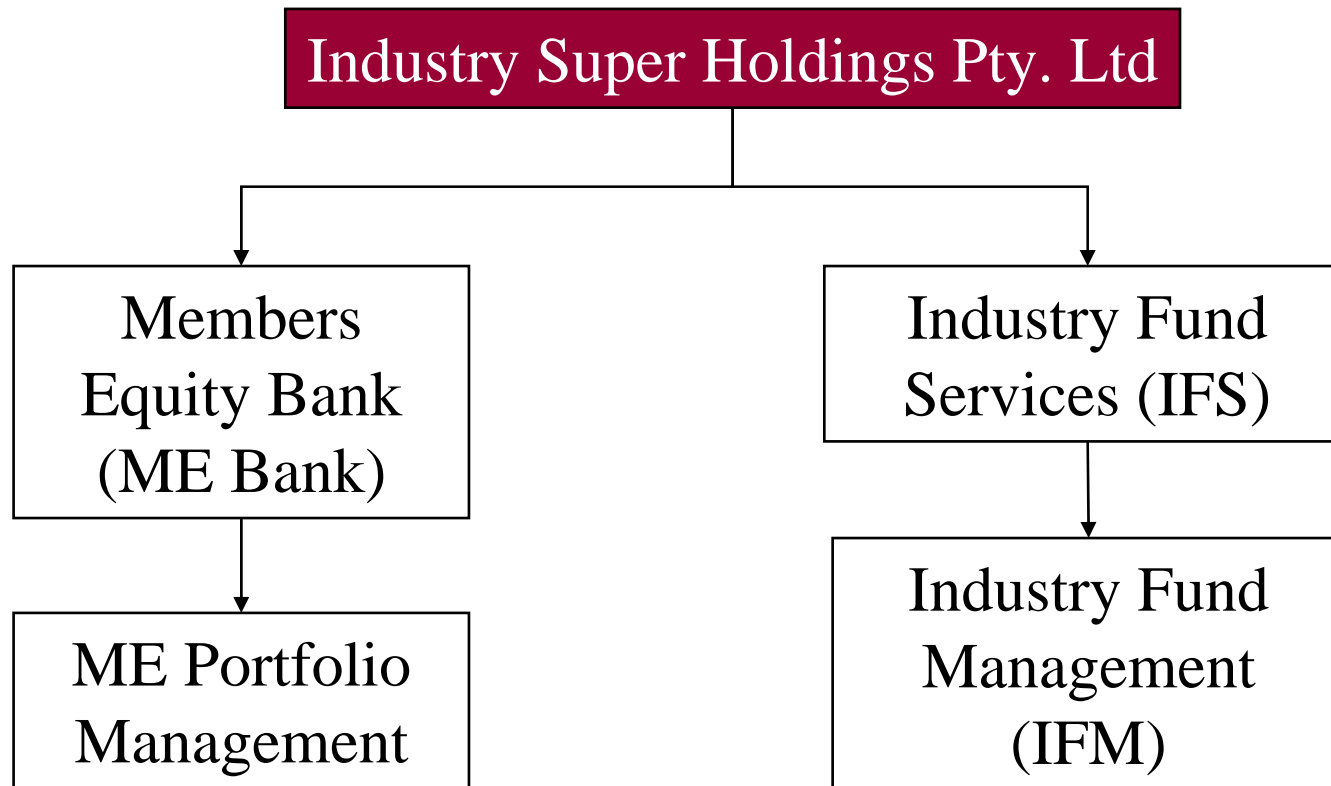
- **ISH, Industry Super Holdings (formerly IFS)**
 - Owned by 40+ funds
 - Fund services (IFS), infrastructure & PE inv. (IFM),
 - services to members: banking (ME), other (IFS)
- **Super Partners**
 - spun off by IFS to 12 fund owners in 2002
 - \$95 bill FUA (50% of industry funds total)
- **Frontier Investments**
 - spun off by IFS in 2000
 - Owned by 4 funds, \$97 bill funds under advice



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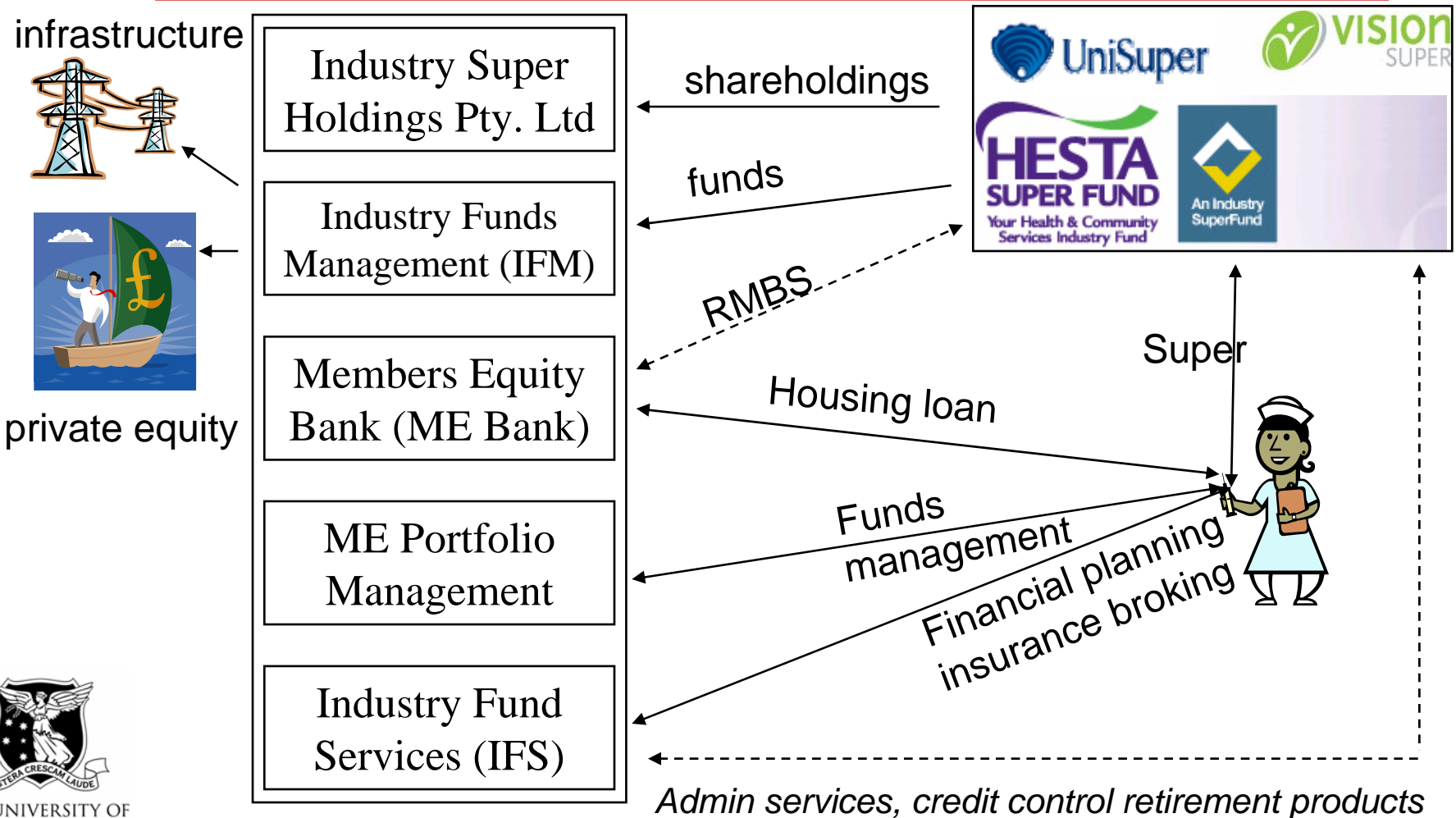
ISH Current Structure



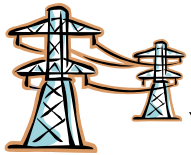
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ISH and Super Funds



infrastructure



private equity

Industry Super Holdings Pty. Ltd

Industry Funds Management (IFM)

Members Equity Bank (ME Bank)

ME Portfolio Management

Industry Fund Services (IFS)

shareholdings

funds

RMBS

Housing loan

Funds management

Financial planning insurance broking

Admin services, credit control retirement products



Super



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ISH History and Development

- 1990 origins of IFM in Development Australia Fund
 - Infrastructure fund: half from large life insurance co. (AMP), half from four Industry Funds
 - IFS assumed management in 1995
 - IFM created in 2004 as manager
- 1994: Industry Fund Services created
 - Seed funding from large life insurance co. (CML)
 - Subsequent ownership by industry funds
 - Provide services to industry funds and members
 - that sole purpose test prevents funds providing
 - where economies of scale important



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ISH History and Development

- 1994: origins of Members Equity Bank in Super Members Home Loan Program
 - Established by National Mutual (became part of AXA in 1995), with support of ACTU
 - Provision of residential mortgage loans to members of industry super funds and trade unions (via securitization)
 - Subsequent creation of ME (AXA and IFS) and then 100% IFS ownership
- 2007 Restructuring of IFS, IFM, ME to create ISH



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Some Common Themes

- Fundamental role of key individual(s)
- Role of Trade Union Movement
- Initial involvement of large (mutual) insurers
- Importance of Government introduction of compulsory super
- Evolving ownership structures/groups
- Spin-off of specialized activities



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Lessons: Evolution and Collaboration

- Collaboration by members of nascent industry
 - Achieved economies of scale
 - provision of member services, precluded by sole purpose test
 - internalization of management fees
 - Required strong leadership
 - Aided by non-overlapping membership
- Industry development threatens collaboration incentives via
 - Competing for business (choice of fund, public offer status)
 - Industry concentration, increased size, and growth of in-house capabilities



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Lessons: People and Politics

- Politics and People are crucial
 - Initially
 - Initiatives of Labor Government and Trade Unions
 - Strong, dominant, industry leaders/innovators
 - Commitment to cooperative spirit
 - Home grown management expertise
 - Subsequently
 - Liberal Govt introduced choice of fund
 - Growth of professional, market oriented management
 - Competition v collaboration?
 - Diffusion of influence and power, roles of multiple entities
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Lessons: Collaborative Investment Management Structures

- IFM model: conventional profit oriented fund manager – owned by super funds; creates & markets investment vehicles, obtains funding commitments and makes asset decisions. Fees charged to investment vehicles.
- ISPT model: manager - owned by super funds; operates on cost recovery, identifies possible assets, super funds make investment decision.



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Lessons: Collaborative Investment Management Structures

- Implications
 - Different potential for independent growth?
 - Differential risk sharing if owner and investor groups differ?
 - Managerial incentives?
 - Long run prospects for continued collaboration?



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Conclusions

- Collaboration via investment vehicles and firms providing admin services valuable in “infant industry”, but collaboration at risk with industry and individual fund growth and development
- Collaboration in providing other services to members (precluded by sole purpose test) valuable and potentially sustainable



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