

Mega investors embrace new strategies to deal with surging growth

October 2021

Australia's largest asset owners are exploring new investment strategies to retain a competitive advantage as they continue their rapid growth.

Kim Bowater, Director of Consulting at Frontier observed that asset growth and scale requires new approaches for adapting to changing market environments and achieving excess returns.

AustralianSuper Chief Investment Officer and Deputy CEO, Mark Delaney, said quickly rising asset growth wasn't as big a problem as expected, but funds need to build portfolios for five years ahead rather than today.

"What has changed dramatically is your implementation approach," he said. "The implementation approach you follow when you are \$15 billion won't be the one you follow at \$100 billion and won't be the one you follow at \$400 billion."

As superannuation industry consolidation continues, a rising number of large funds have used increased scale to internalise substantial portions of their asset management.

Delaney said the shift had worked for AustralianSuper, lowering fees and improving capacity. It was also now easier to quickly tilt the portfolio without having to take money away from good external fund managers.

"There's a fair bit of savings to be made just by having incrementally more control over how your dollars move around the system, and the bigger you get, the bigger the dollar savings that are in the system."

Cbus started internalising its asset management about five years ago to improve its operational capabilities for decision making and execution, according to Cbus Chief Investment Officer, Kristian Fok.

"For instance, underwriting share issuances in companies that we already want to invest in, you cut out investment banks," he said.

Cbus can offer its own skills to partner more effectively with external fund managers, such as providing liquidity because of its long-term time horizon.

"During the distress of COVID, it was quite valuable in terms of understanding all those insights and where should we play in the capital structure."



Future Fund Chief Investment Officer, Sue Brake, said the sovereign wealth fund had recently completed a year-long review to assess how the pandemic has changed the market environment.

It realised the fund needed to take on more structural risk to achieve its investment target and become clearer about its comparative advantages. It plans to invest more in private markets; will focus on generating incremental returns through better balance sheet management; and will reassess its dynamic asset allocation.

"It's truly remarkable that things have been changed through this period and it's a really exciting time to be an investor, because with risks there are also opportunities," she said.

Fok said Cbus's origins in the property sector meant it could generate specific insights in that area.

"We have some industry insights that we can access very easily, because of the nature of our directors, around what they're seeing thematically."



Frontier Level 17, 130 Lonsdale Street

Melbourne, Victoria 3000

Tel: +61 3 8648 4300

www.frontieradvisors.com.au

@frontier_adv