

OVERVIEW

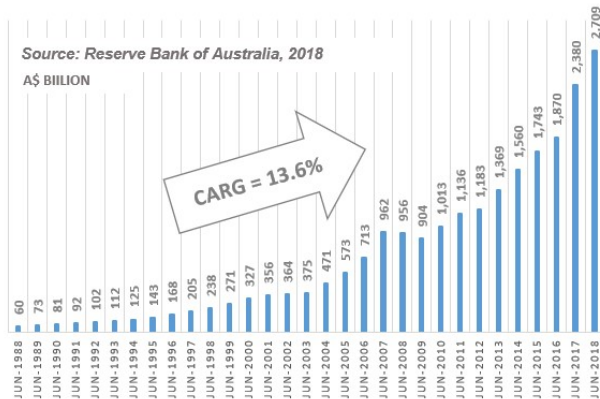
The Australian retirement income system relies on three interacting pillars comprising of

- the means-tested and publicly funded Age Pension;
- the mandatory employer-funded defined contribution known as Superannuation Guarantee (SG); and
- additional voluntary contributions supported by tax concessions and direct government support for low-income earners.

THE AUSTRALIAN SUPERANNUATION SYSTEM

► Scale | Size to GDP | System Design | Defined Contributions Leader | Freedom of Choice | Sustainability and Integrity

TOTAL ASSETS OF AUSTRALIAN SUPERANNUATION FUNDS
1988 - 2018



Large in Scale: During the last thirty years, the value of total assets managed by Australian super funds has grown from \$A60 billion in 1988 to A\$2.7 trillion in 2018, achieving a compound annual growth rate of 13.6%, making Australia the fastest growing pension market in the world¹.

Contributing 17 to the top 300 pension funds of the world in 2017, Australia is ranked 4th in pension assets² (A\$2.7 trillion), and sixth regarding the total managed assets (A\$3.5 trillion) globally³.

High pension assets to GDP: During the last eight years, Australia's pension assets to GDP ratio has increased from 88% to 138% in 2017 while for the world, the ratio was just 67%. Australia is in the second place globally, after the Netherlands, regarding the relative size of pension assets to GDP⁴.

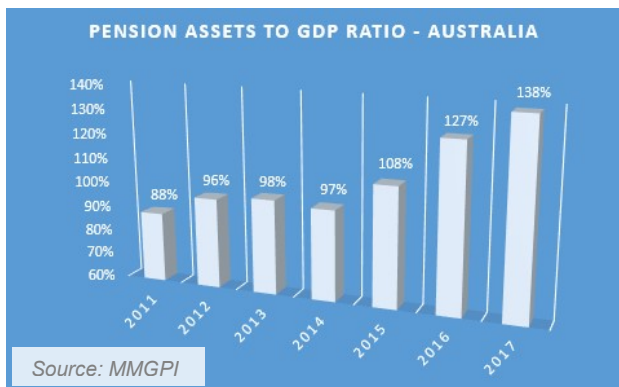
System Design: Fueling the growth of the Australian system is the mandatory employer SG contribution, introduced in 1992, together with a variety of tax-advantaged voluntary contribution schemes. The current SG rate is 9.5%, which is expected to increase to 12% by 2025. After more than 25 years, great wealth has been accumulated in the system to serve Australian's evolving retirement needs and support the resilience of the financial system and overall growth of the Australian economy.

'Defined Contribution' System Leader: Australia is also leading the world in the movement from a "defined benefits" (DB) to "defined contributions" (DC) superannuation system. DC arrangements are dominant in Australia, occupying up to 87% of the system, significantly higher than the 48.6% average of the seven largest pension markets⁵.

Freedom of Choice: Although DC means that the responsibility of decision making and investment risk lies with the individual, the system does allow for freedom of choice among various investment options with different risk profiles, active and passive investment strategies versus the recommended default selection, MySuper products. At the end of the June 2018 quarter, the total assets in MySuper products were \$675.5 billion representing almost 25% of the total super assets⁶.

Individuals can also choose to manage their retirement savings via the self-managed super fund (SMSF) structure. The growth of SMSFs has been significant in the last few years with almost \$750 billion in the total asset at 30 June 2018⁷.

Sustainability and Integrity: The Australian system has also been relatively well ranked in sustainability and integrity over the last ten years in the MMGPI. See MMGPI reports⁸.



AUSTRALIA*	Population	GDP growth	GDP (nominal)	Total managed assets	Pension assets
	25 million	3.20%	A\$1.9 trillion	A\$3.5 trillion	A\$2.7 trillion
	Ranked 53 rd in the world	Average annual real growth 1992 - 2017	World's 13 th largest economy	Ranked 6 th in managed assets	Ranked 4 th in pension assets

² Willis Towers Watson: 300 analysis (2018)

³ Australian Bureau of Statistics (2018)

^{4,5} Global Pensions Asset Study (2018)

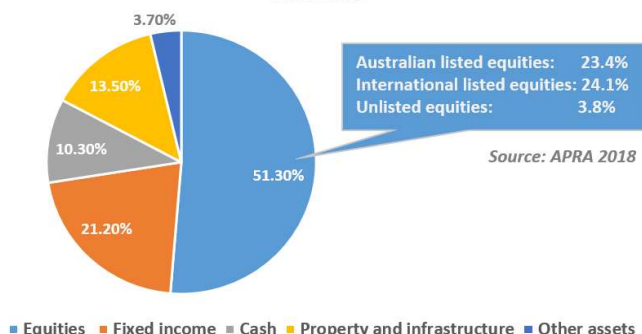
^{6,7} Australian Prudential Regulation Authority (APRA) (2018)

⁸ MMGPI reports (2009 - 2018)

AUSTRALIAN SUPER FUNDS – LEADING EDGE

Australian super funds are getting larger in scale via mergers and acquisitions. The number of funds has reduced from 258 in 2014⁹ to 221 super entities in 2018, comprising of 202 APRA-regulated entities and 19 exempt public sector schemes. Super funds with more than \$50 million in assets hold 99.7% of the assets in the system. Gaining scale helps Australian super funds improve efficiency and ascend on the world ranking.

Asset Allocation of Australian Superannuation Funds
June 2018



The shift to a DC-based system in Australia allows super funds to design products with aggressive allocation toward growth assets to pursue higher long-term returns. Australian super funds invest 51.3% of the total assets in equities, dividing into 23.4% in listed Australian equities, 24.1% international listed equities, and 3.8% in unlisted equities.

The average global asset allocation to equities of the seven largest pension markets is 46% equities at the end of 2017¹⁰.

Australian Superannuation Industry Allocation to Infrastructure				
Corporate	Industry	Public Sector	Retail	Total
3.40%	8.7%	4.90%	1.8%	5.1%

Source: APRA, as at 30 June 2018

Led by industry funds, Australian super funds are proactive in investing in infrastructure assets, with an average portfolio allocation of 5.1%, approximately A\$138 billion in infrastructure; either in Australia or overseas. In the 2018-2019 Budget, the Australian Government has committed more than AUD75 billion for land transport investment over the next decade¹¹.

No longer just buying infrastructure ETFs or investing via investment companies, super funds are building internal expertise in direct infrastructure investment.

Another observed trend is that Australian super funds actively take up responsible investment. 135 Australian service providers, asset managers and owners, including most super funds, are signatories to the United Nations' Principles of Responsible Investing (PRI)¹².

According to a survey in 2018 by Responsible Investment Association Australasia (RIAA), 81% of large super funds now have embedded ESG and ethics considerations alongside financial factors in investment decisions. There are 70 responsible investment options offered by super funds¹³.

In alignment with PRI, Australian super funds maintain good investment stewardship with portfolio companies.

VICTORIA – A BUSINESS AND FINANCIAL HUB

The Victorian Government's support for the MMGPI in the last ten years is a testimony to the commitment of the government to promote the development of pension sectors in Victoria and around the world.

Melbourne has a vibrant investment community being the hub of headquarters and large offices of super funds, investment companies, administrators, advice services, asset consulting firms share registry service and custody service providers.

Large Victoria-based Funds	AUM (A\$ billion)	
Future Fund	146	As at June 2017, reported by APRA
Victorian Funds Management Corporation	60	
AustralianSuper	123	
UniSuper	63	
Cbus Australia	46	As at June 2018, from fund's website
ESSSuper	27	
VicSuper	19	
Telstra Super	20	
HOSTPLUS Australia	25	
Australian Post Super	8	

Victoria has:

- important industry bodies,
- excellent ecosystem to support business,
- good telecommunication and IT infrastructure,
- been the fastest growing state in Australia with a skilled labour force,
- potential infrastructure investment opportunities with extensive road and rail networks well-linked with air and seaports; and
- strong potential to export financial services and investment management capabilities.

Victorian businesses have skills that potentially can be global and scalable. Particularly, the Victorian Government is keen on promoting direct and indirect exporting of financial services and investment management capabilities via establishing links to other governments and foreign businesses.

Australian funds, particularly superannuation funds, could potentially play an increasingly important role in the local and international investment management industry and infrastructure asset markets.

As a leading thinker and supporter of building a world-class, robust retirement system in Australia, the Victorian Government can also play a role in supporting other governments in the regions in the same cause.

Financial services sector employs 118,000 highly skilled Victorians	Melbourne is home to 6 of Australia's top 12 pension funds	Melbourne is home of the A\$146 billion Future Fund – Australia's Sovereign Wealth Fund	Melbourne is home of 10 world-class universities	Financial services account for over 11% of Victoria's total economic output	Melbourne has always been in the Top 3 of most liveable cities in the world since 2002
----------------------------------------------------------------------------	-------------------------------------------------------------------	------------------------------------------------------------------------------------------------	---------------------------------------------------------	------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------

⁹ APRA (2015) Statistics: Segmentation of Superannuation Entities.

¹⁰ Thinking Ahead Institute (2018), Willis Towers Watson: Global Pensions Asset Study

¹¹ Department of Infrastructure, Regional Development and Cities (2018), Strengthening Australia's cities and regions: The Australian Government's 10 Year Investment in Infrastructure.

¹² United Nations' Principles for Responsible Investment signatory directory page

¹³ RIAA (2018) Super Fund Responsible Investment Benchmark Report & Australian Responsible Investment Benchmark Report

* The Australian Trade and Investment Commission (2018) Benchmark Report

** Mercer (2018), Melbourne Mercer Global Pension Index, Australian Centre for Financial Studies, Melbourne.

** Invest Victoria, <http://www.invest.vic.gov.au/>

** Economist Intelligence Unit (2002-2018) Global Liveability Index