



# The AMBACHTSHEER Letter

Sustainable Pension Design • Effective Pension Management

April 2019

## CREATING VALUE FOR STAKEHOLDERS AND FOR THE GREATER GOOD:

### HOW *CBUS SUPER* USES THE <IR> FRAMEWORK TO TELL ITS STORY

*“Our Board has acknowledged that our Report follows the **Integrated Reporting Framework**, which allows us to tell our members and other stakeholders how we create value for them.”*

*Cbus Super Annual Report, 2018*

*“In executing our strategies, we follow Peter Drucker’s Wagon Train analogy. He believed that affecting change was similar to speeding up the wagon trains of the Old West. Go to the front and learn what is being done well. What are the lead wagons doing to make them faster? Then take these lessons and share them with the rest of the wagon train.”*

Doug Pearce

Former Chair, *Canadian Coalition for Good Governance*  
Annual Meeting of the CCGG, 2006

#### **Wagon Trains, <IR>, and *Cbus Super***

Research confirms that simply believing there is a ‘better way’ of doing things is not enough to bring that ‘better way’ about. Actually creating positive change requires hard work to break through multiple technical and behavioural barriers. So where to start? Ever the master of simplifying complex management problems, Peter Drucker proposed his Wagon Train analogy: find out what makes the Lead Wagons go faster and share these findings with the Follow-On Wagons.

Here we apply Drucker’s advice to asset owners adopting the <IR> *Framework* to tell their value-creating stories. Response to the <IR> proposal developed in the prior three *Letters* has been positive, but there are technical and behavioural barriers to overcome. So how have the Lead Wagons in <IR> overcome them? This *Letter* helps answer that question.

Australia’s *Construction and Building Unions Superannuation Fund (Cbus Super)* qualifies as a Lead Wagon by virtue of deciding to adopt the *Framework* four years ago. Founded in 1984, *Cbus Super* is one of Australia’s largest industry super funds with (as of mid-2018) 778K members, 136K employers, and \$47B in assets. With an average member age of 39, it is a relatively young fund with significant growth potential in the years ahead.

How does CEO David Atkin view *Cbus Super*’s decision to adopt <IR> four years ago? He ends his comments in the 2018 Annual Report with these words: *“Finally, it is important to acknowledge that <IR> provides a useful framework to articulate our business model. Now, in our fourth integrated reporting cycle, we are reaping the benefits of a deeper alignment of our business planning with it.”*

Using the <IR> *Framework*, this *Letter* summarizes the *Cbus Super* value-creation story in six parts: 1. Organizational overview, capital resources, and value-creation, 2. Governance, 3. Business Model, 4. Performance, 5. Risks and Opportunities, 6. Strategy, Resource Allocation, and Outlook.

## Organizational Overview, Capital Resources, and Value-Creation

A brief *Cbus Super* organizational overview has already been provided above. The organization deploys six types of capital to create stakeholder value: 1. Financial (accumulated retirement savings), 2. Manufactured (real estate, IT equipment), 3. Human (its people), 4. Intellectual (economic, financial, actuarial models), 5. Social/Relationships (its business and personal networks), 6. Natural (land, water, air).

*Cbus Super* uses these capitals to address the four desires that it has found matter most to its members and their employers:

1. Having enough income in retirement
2. Looking out for our interests
3. Investing responsibly and sustainably
4. Continuing to manage *Cbus Super* as a strong, reliable, innovative organization

To meet these stakeholder needs, the organization will create value in six specific ways:

1. Design and implement member product and services that meet their expressed needs
2. Provide advice and assistance to members
3. Provide advice and solutions to employers
4. Advocate member and employer interests
5. Evaluate and manage business partner relationships
6. Support the UN's 17 Sustainable Development Goals (SDGs)

The 2018 <IR> Annual Report tells the story of how *Cbus Super* uses its six types of capital to achieve these value-creating goals. This *Letter* summarizes its story.

## Governance

The Report profiles *Cbus Super's* 16-member Board in five dimensions: tenure, gender, age, hours of training, and skills/experience. For example, the distribution of Board skills/experience is Legal – 19%, Building/Construction – 28%, Finance/Investment – 19%, Property – 16%, and Public Policy – 19%. The five standing committees are Investment, Audit and Risk, People, Member/Employer Services, and Nomination. The performance of these committees and the Board as a whole is evaluated on a regular basis with the assistance of an outside third party. There are clear policies on conflicts of interest and Board remuneration, gender, and tenure.

The Board oversees the development and implementation of *Cbus Super's* strategic plan. It sharpens its strategic focus through offsite meetings that cover topics such as retirement readiness and the impacts of changing demographics and technology on the organization and its stakeholders. The Board is expanding the responsibilities of its People Committee to delve more deeply into, and support organizational priorities such as strengthening culture and updating remuneration policy. The Investment Committee is overseeing the implementation of a new investment model, which includes enhancing the integration of ESG considerations into the investment decision framework.

## Business Model

To meet the expressed needs and wants of its member and their employers, *Cbus Super's* business model has two key components:

1. Advice/Administration Services Component: provides retirement-related information, advice, and assistance to members and their employers, and advocates on their behalf. Key elements of this structure include active member engagement and feedback mechanisms, an expanding

digital presence (e.g., video account statements, retirement income estimates), a relevant array of insurance products, and a comprehensive employer engagement, support and advocacy program.

2. Investment Decision-Making Component: generates competitive, sustainable net long-term returns within pre-established risk budgets. Key elements of this structure are taking an integrative total portfolio perspective, innovating through sourcing investments through multiple channels, direct investing, insourcing, and rigorous due diligence processes including such ESG considerations as carbon emissions, sustainable supply chains, gender and cultural diversity, and labour rights, health and safety.

The Report contains a special section titled “Our Approach to Responsible Investing” which explains *Cbus Super*’s fundamental belief of RI’s importance to delivering long-term value for its members who work (or have worked) in the building and construction industries. Explicit reference is made to using the UN’s 17 Social Development goals as criteria for creating a Global Quality Equities strategy, as well as to inform *Cbus Super*’s voting and engagement intentions. An investment example was Bright Energy (a wind and solar renewable energy company). Two engagement examples were Commonwealth Bank of Australia (money laundering and cultural issues) and Rio Tinto (lack of climate-related disclosures). *Cbus Super* believes the ‘S’ in ESG is best tackled through collective action organizations such as Responsible Investment Association of Australia and the global Workforce Disclosure Initiative.

## Performance

The two Business Model components each have their own performance metrics:

1. Advice/Administration Services Component: Member satisfaction rating is 86%. Average active member balance is \$57K. Proportion of active members with adequate savings levels is 70%. Proportion of members retained with an Income Stream account after retirement is 80%. Average Income Stream member account is \$277K. A project to understand Income Stream member behaviour and sustainability of income in retirement is underway.<sup>i</sup> On the employer side, the satisfaction rating is 92%. Projects to maintain high employer satisfaction ratings and attract new employers are underway. There is a detailed scorecard listing actual member and employer experience metrics vs. targets.
2. Investment Decision-Making Component: the 10yr net return on the *Cbus Super* default investment option was 7.2% vs. 6.4% for the median Industry Fund and 5.3% for the median Retail Fund.<sup>ii</sup> Longer and shorter evaluation periods produced similar results. These results were achieved with a below-median equity portfolio carbon footprint (280 vs. 290) and a property portfolio sustainability GRESB score of 97/100, which is 3rd out of 874 global rankings. The Report also provides more qualitative performance assessments on SDG goals related to gender equality, renewable energy, sustainable infrastructure, and participating in collective national and international ESG/SDG-related initiatives.

*Cbus Super* also measures and reports on progress in improving internal business functions such as governance, people management, IT, and finance.

## Risks and Opportunities

*Cbus Super* sees future demographic, political, economic, and environmental developments embodying both risks and opportunities for the organization. Its <IR> Report sets out a risks/opportunities matrix as an organizing framework. Figure 1 on the next page represents a simplified version of it.

**Figure 1 Cbus Super Risks and Opportunities Matrix**

External Risks/Opportunities - >	Impact on Organization	< - Internal Risks/Opportunities
Financial Markets	Meeting member/employer needs	Governance
Information Security	Growth/Sustainability	People/Talent
Legislative/Regulatory	Brand/Reputation	Culture

The Report provides a detailed strategy matrix setting out *Cbus Super* future goals and the plans to achieve them. A key strategy philosophy is to seek out opportunities that (a) will enhance meeting member and employer needs, organization growth/sustainability, and brand/reputation, and (b) to mitigate the risks that would negatively impact these three organizational goals.

**Strategy, Resource Allocation, and Outlook**

Looking ahead, the Report makes two assertions: “*Cbus Super* will win 1. By looking after its members and employers better than anyone else, and 2. By being an innovative, long-term, patient investor with a proven track record of superior outcomes.” To that end, it will achieve these four goals over the next two years:

1. Increase active member engagement: raise the proportion of members at adequate retirement savings levels materially above the current 70%.
2. Increase retiring member engagement: raise the proportion of retiring members that stay with the Fund through the Income Stream option materially above the current 80%.
3. Increase employer engagement: raise the proportion of industry employers who have chosen *Cbus Super* as the super provider for their employees materially above the current 50%.
4. Provide superior investment results: by continuing to produce first quartile investment returns, moving in-house investing to 25% of assets, and reducing investment costs by 0.15% of assets.

The Report lays out detailed strategies for each of these four goals. The strategies to achieve Goal #4 (produce superior investment results) include enhancing the new investment model on both technical and talent fronts, enhancing the direct investing program (especially in real estate), reducing agency and other friction costs, and further developing the responsible investment program, including creating a climate change roadmap.

**Becoming an <IR> Lead Wagon**

Can you imagine a world where all asset owners tell their value-creating stories using the <IR> Framework? While none will match the *Cbus Super* narrative exactly, all would have important commonalities. All would explain why they exist, how they are governed, their business model, their results, how they see their prospective risks and opportunities, and what they will do to produce even better results tomorrow. Are you prepared to join *Cbus Super* as a Lead Wagon?

*Keith Ambachtsheer*

Endnotes:

- Given the #1 wish of Cbus Super members is ‘to have enough income in retirement’, this is an important project.*
- Cbus Super could expand its performance benchmarking activities by comparing a suite of performance metrics vs. those of its national and international peers as it currently does with its property portfolio.*

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Published by KPA Advisory Services Ltd., 1 Bedford Road, Suite 2802, Toronto ON Canada M5R 2B5  
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