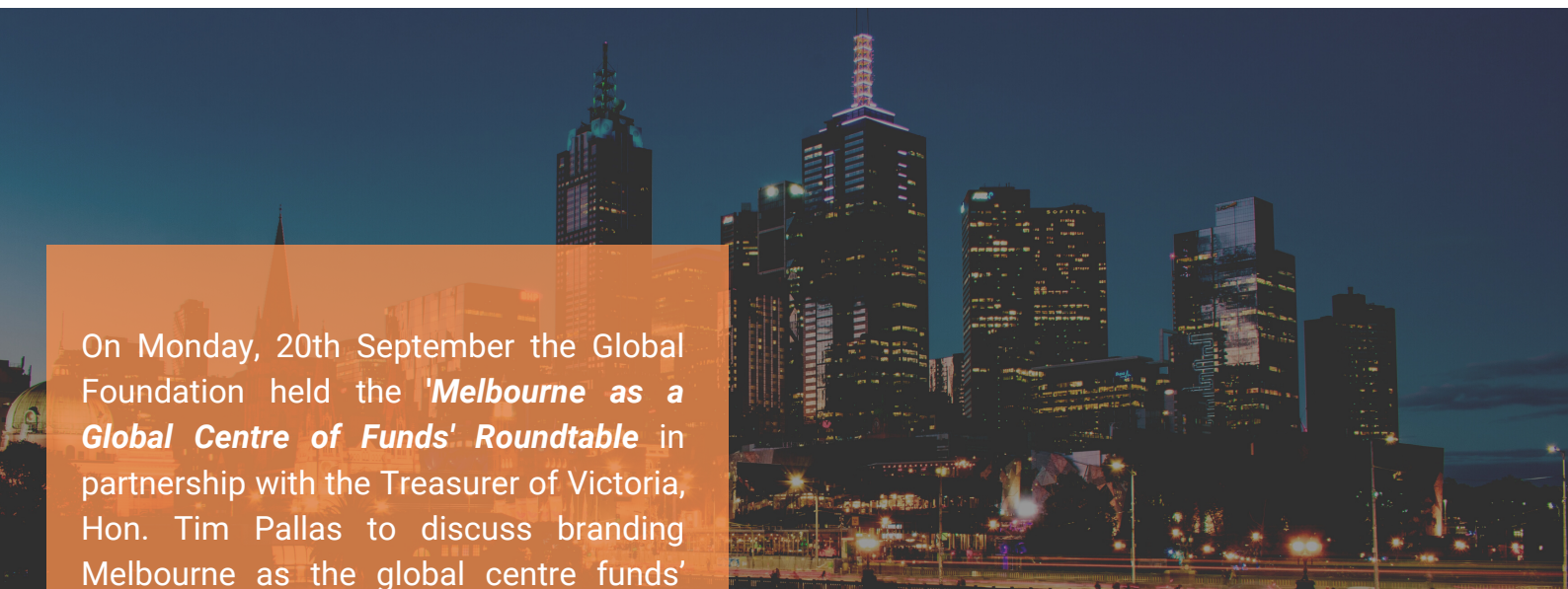


'Melbourne as the Global Centre of Funds'

Roundtable Report

A Global Foundation Initiative

Monday 20th September 2021



On Monday, 20th September the Global Foundation held the **'Melbourne as a Global Centre of Funds' Roundtable** in partnership with the Treasurer of Victoria, Hon. Tim Pallas to discuss branding Melbourne as the global centre funds' capital and harnessing longer-term investments to achieve common good.

The Foundation has long demonstrated the positive influence on society that can follow from better alignment between long-term investor interests; combining profitability with sustainable outcomes and community benefit. Thirty years ago, Melbourne generated what became a successful global model for innovations in private sector-led infrastructure financing for public assets. This breakthrough was only possible due to the parallel rise of industry superannuation funds. Today there is a fresh opportunity to innovate new products to suit the times and the growth aspirations of funds.

With many superannuation funds, infrastructure and legal experts involved in this roundtable, the Global Foundation Secretary General put forward an exciting initiative for implementing this Melbourne focussed project with the support of the Victorian Government and it received significant support and momentum. Prior to this meeting The University of Melbourne confirmed that they are also on board with this proposal and will endeavour to provide an eco-system that supports potential innovations in the education and training requirements for the growing funds management sector.

The specific areas of product development that could benefit from seeing Melbourne as the capital of investments, similarly to Boston, are social housing, electric vehicles and surrounding infrastructure and blended green infrastructure investments in developing nations.

It was made clear in the roundtable that private funds can play a significant role in Melbourne's recovery from the pandemic. Australia has a 'world leading superannuation base' and we must tap into this to create impactful social results like accessible social housing and sustainable infrastructure in partnership with government. The government is committed to **'unlocking mutually beneficial opportunities'** to unleash our collective interest, particularly in the potential of super funds, in improving the state. An innovative approach will be taken to ensure a successful partnership by all involved in this project and to do this we must decide on the deliverables and commit to benefitting the community in a win-win arrangement that also provides significant returns for investors.

"Investor capital must be mobilized in order to make our world sustainable for the future".

Melbourne has a significant flow of capital with super funds seeing half a billion dollars a week and there is a huge amount of **'human expertise augmenting that capital'**. The focus now needs to be on how to deploy this capital towards achieving social good.

The branding of Melbourne will be an essential element to this initiative, and it was agreed by those present that Singapore offers a good example of how this can be done well. There was acknowledgement for the role of the media and government when creating a specific label for Melbourne as an international fund centre and University involvement to support the education of the sector. *"There is no doubt we will need something substantive"*. The meeting acknowledged that this need to be ***"well organised, sharp and focused to deliver outcomes that are mutually beneficial"***. It was noted that in terms of branding, Australia used to have a strong

reputation for quick action especially in terms of the UN Principals of Responsible Investment and the Montreal agreement regarding the Ozone layer, however Australia has now become a 'laggard' with its disappointing response to climate change. This needs to improve in order for investors to see the benefits of sustainable investment and for the branding of Melbourne to really take hold. It was also suggested that the OECD could be used to steer financial industries towards the Paris agreement.

The areas in which the funds could be focussed include sustainability to combat climate change and social equality. Speakers addressed these specific areas and how long-term investment can dramatically improve the fabric of society.

If we look at climate change specifically with a progressive perspective, there are already



over 110 major global companies that have publicly committed to net-zero emissions. We must look at how an asset manager can now play a role in this process as they are responsible for an individual's investment. Prior to reaching any kind of net-zero achievement in 2050 there needs to be commitment for -16 to -29 by 2025 which shows strong promise and will allow the public to pay more attention in terms of capital investment. Market regulators in relation to ESG reporting will also be of vital importance on this journey and that is why co-creation with multiple players is paramount. **"At the moment you have 70% global emissions that are covered by net-zero commitments. We are not where we should be but that's still 70%."** There will be a great challenge in seeing net-zero achieved in emerging countries and this will be something Australia can play an important role in. Engagement with governments, regulators and supranational organizations, known as 'macro-stewardship' needs to be applied here as **"We do not run markets through treaties... they are run through G20"** and the change here is not happening at the pace that is required.

It is clear from this meeting that there will need to be a mandate shift across at least another 105 banks so that monetary policies

are adapted to the global transition and markets can start to lead to socially optimal outcomes. There was agreement that Financial Ministers need to step up and commit to the Paris agreement as this is now a *'political ambition'*.

Governments cannot rely on only the financial sector to take care of this problem, **"this is the greatest market failure of all time"** and we need to push our politicians and policy makers to start regulating this. It was also made clear that a 4 degree rise in climate conditions would lead to unachievably expensive insurance and effectively destroy the financial sector; **"if insurance falls over, then banking is not far behind and there goes society"**.

So we come to next steps in implementing this Global Foundation initiative to mobilize investment funds and endorse Melbourne as an international hub for fund management. There was international acknowledgement for the brand that Melbourne has already built through the Victorian superannuation leadership and it is important to note just how far superannuation has come - scheduled to be worth 3.5 trillion dollars at the end of this year. **"Now we must decide exactly what areas we can link this capital to and what we can do to make Melbourne leverage off this pool of capital."** The concept of 'blended finance'





has seen great success with getting electricity to small communities in third world countries and large funds could contribute to this by investing into renewable projects or into smaller funds around Asia for example. It is this kind of innovation on a local level that Melbourne based funds could take part in. ***“These small investments in developing markets can have a really powerful effect.”***

This idea of co-designing can also be applied to social housing which requires broader investment to achieve sustainability outcomes. This would see high cash flows that link directly to fundamental human need and therefore there would be *“a strong value alignment with the industry fund collective”*. The housing sector needs to partner with industry and requires low cost moves from government to amplify its potential.

“The government has to get the plumbing right and have industry investors turn the taps on to have solutions derived on an industrial scale”. Not only does social housing require this investment but we must also look at the balance of offshore

investment vs investment in Australia and how to ensure this arrangement will benefit Australian projects. ***“The superannuation membership is a great proxy for the Australian work force and retired community”*** and it is suggested that the best way to leverage this power is to develop policies that give all APRA-regulated industry funds the ability to participate according to their scale.

It is clear that there is enough global and local will to make this happen and with mutual commitment there is an opportunity now to ***“take another leap forward in superannuation leadership, with Melbourne at its centre”***. Having signed an agreement with Victorian Government via the Hon. Tim Pallas, Global Foundation Secretary General Steve Howard has since met with the Treasurer and his working group to move forward with this project. The next step will be a meeting in February where clear goals and initiatives will be mapped out. We look forward to continuing to report on this developing project.