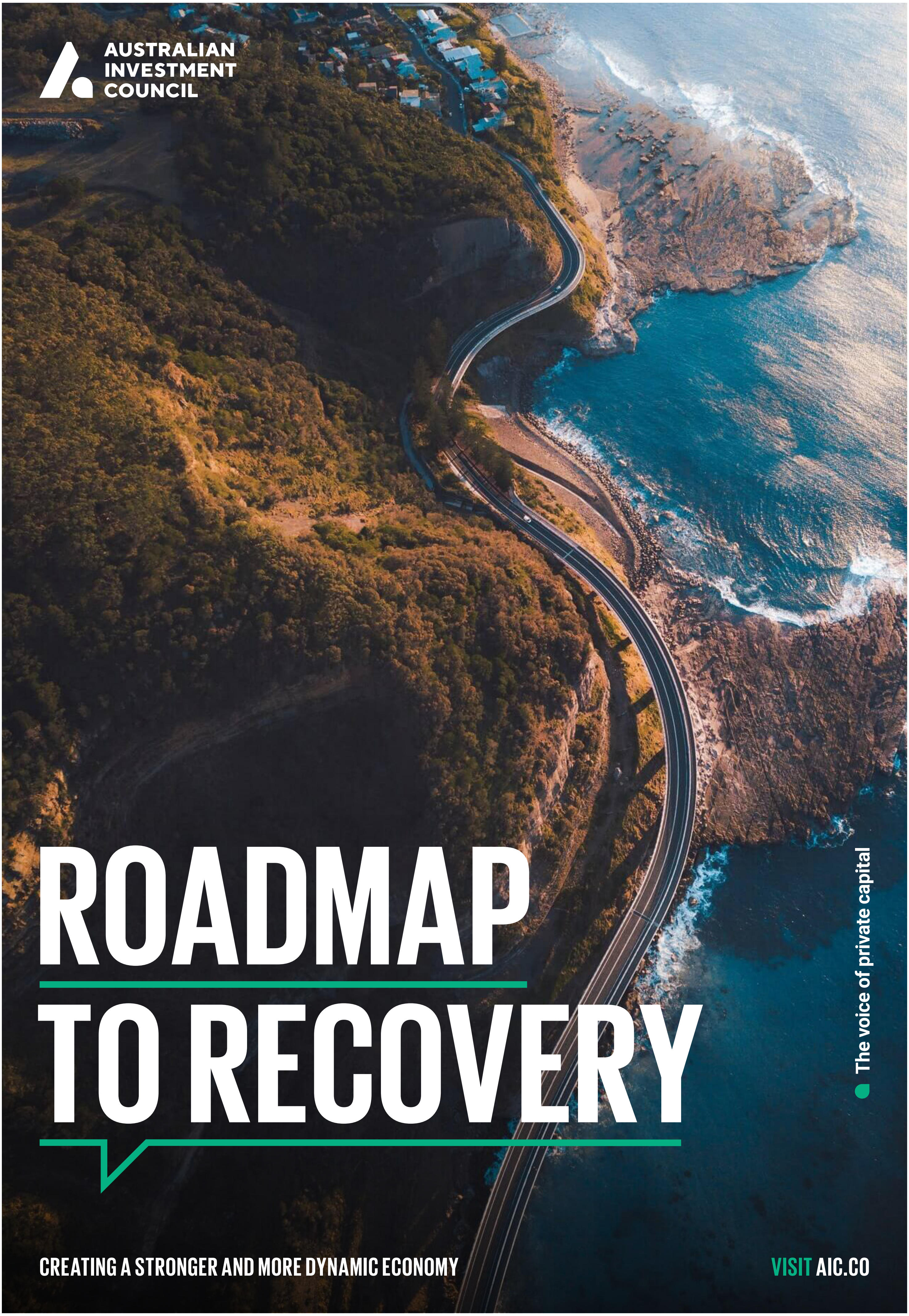

AUSTRALIAN INVESTMENT COUNCIL

ROADMAP TO RECOVERY

The voice of private capital

CREATING A STRONGER AND MORE DYNAMIC ECONOMY

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ROADMAP TO RECOVERY: CREATING A STRONGER AND MORE DYNAMIC ECONOMY

COVID-19 creates a catalyst for Australia to closely assess its sovereign capability in a number of key industry sectors.

Australia's relatively successful proactive management of the public health crisis arising from the pandemic provides an opportunity to capitalise on the nation's position as part of the group of 'first-mover' nations to emerge out the downturn and to harness the opportunities that the future can bring.

To support the economic recovery challenge over the period ahead, Australia must embrace this moment in time as an opportunity to lay down a visionary plan that will underpin the next phase of prosperity and incomes growth for all Australians.

To assist in the development of that vision, the Australian Investment Council conducted a comprehensive member survey and identified the major barriers and the key policy priority areas essential to Australia's economic recovery and the expansion of businesses.

FOUR MAIN BARRIERS TO BUSINESS RECOVERY

- 01 Business and travel restrictions
- 02 Cash flow and access to funds
- 03 Economic uncertainty and consumer confidence
- 04 Social distancing and 'second wave' concerns.

SEVEN POLICY PRIORITY AREAS

- 01 Taxation reform
- 02 Market deregulation and red tape reduction
- 03 Innovation, technology and skills
- 04 Industrial relations reform
- 05 Infrastructure spending
- 06 International competitiveness
- 07 Superannuation and Australia's ageing population

THE IMPACT OF COVID-19 ON PRIVATE CAPITAL-BACKED AUSTRALIAN BUSINESSES[1]

81%

81% have **stopped some or all commercial activities** due to COVID-19 restrictions

JOB

75% have been forced to **reduce their workforce**

66%

Over 6,000 jobs lost — **66%** of businesses expect further job losses

WE ARE READY TO SUPPORT AUSTRALIAN BUSINESSES AND ASSIST REBUILDING THE ECONOMY[2]

The private capital industry manages **$33bn** in total Assets Under Management

1 in 9 new jobs in Australia are created by highly innovative private capital-backed businesses.

2.6%

The industry contributes **2.6% of Australia's GDP**

The industry employs **200,000 Australian workers**

Jobs growth is higher in private capital-backed businesses

The private capital industry has **$13bn available to invest** into great Australian businesses today

AUSTRALIAN INVESTMENT COUNCIL

[1] Data from the Australian Investment Council's member survey (May 2020).
[2] Data from *Private equity: Growth and innovation* and the *Preqin & Australian Investment Council Yearbook 2020.*

THE PRIVATE CAPITAL INDUSTRY CAN MAKE A SIGNIFICANT CONTRIBUTION TO AUSTRALIA'S ECONOMIC RECOVERY

The global COVID-19 pandemic and the government imposed restrictions on individual movements and business activities have had a significant impact on every dimension of the Australian economy.

In April alone, 600,000 jobs were lost and the participation rate crumbled as almost 500,000 people left the workforce.[3] The underutilisation rate has already risen to 19.9%[4], and analysts project the unemployment rate to hit 12-15%;[5] a rate that would certainly be higher if not for important government support initiatives such as the JobKeeper Program.

Economically, the silver lining that emerges from the COVID-19 pandemic is that it has created a catalyst for Australia to closely assess its sovereign capability in a number of key industry sectors. To capitalise on Australia's comparative advantage and to harness the opportunities that the future can bring, our roadmap to recovery must be underpinned by a comprehensive plan by government to bring about meaningful economic reforms for long-term prosperity.

A cornerstone of our national plan to secure Australia's future economic, employment and productivity growth should be to support the acceleration and development of our domestic technology as an enabler of businesses across all sectors of our economy. The technology industry has the ability to directly make a significant contribution to high-value economic output[6] and to lift productivity, global competitiveness and create jobs across the entire economy. A stronger technology capability would represent a significant new building block in designing a future-proof Australia that generates sustainable economic and incomes growth for all, and positions our market with a competitive edge against other developed economies around the world.

The Australian Investment Council believes that we should aim to ***double the size and output of Australia's technology industry by 2030***. The significant benefits of this would flow to almost every industry in Australia through growth, improved productivity and new high-value job creation. This objective can be achieved through fostering deeper and more meaningful partnerships between industry, government and academic institutions, and increasing the skills of our workforce. Additionally, the role of technology should be central in any new regulation and legislation to help create an environment that incentivises investment and removes regulatory burdens. Government procurement should play a critically important role in supporting the growth of technology across all areas of social and business policy and programs, helping to turbo-charge the work being done by the Digital Transformation Agency.

The Australian Investment Council has brought together the collective insights of the private capital industry through a combination of survey and qualitative input, to identify those reform priorities that will create the most significant opportunities for Australian businesses in the years ahead.

The private capital industry is a critically important investment and efficiency driver for Australian industries, and businesses. Fund managers invest capital from a wide variety of domestic and offshore institutional investors to support the growth of thousands of high-potential Australian businesses. In combination with that, private capital investors deliver to those businesses a mix of strategic support, value-enhancing innovation, and connections to help them unlock growth opportunities in domestic and international markets, which underpins the creation of new jobs across every sector of the economy.

THE AUSTRALIAN INVESTMENT COUNCIL BELIEVES THAT WE SHOULD AIM TO DOUBLE THE SIZE AND OUTPUT OF AUSTRALIA'S TECHNOLOGY INDUSTRY BY 2030.

In addition to taking action on the broader policy areas identified below, a variety of specific changes should be implemented to more directly assist the private capital industry in growing the pool of capital available to support investment into Australian businesses. To lift equity and debt capital investment into the SME market and larger businesses, the priority changes are:

(1) implementing a globally competitive limited partnership collective investment vehicle, as recommended by the 2009 Johnson Review into *Australia as a Financial Centre*, to attract greater inbound investment from offshore, given Australia's credentials as a market capable of delivering exceptionally strong returns for investors;

(2) removing the temporary barriers to inbound investment capital sourced from offshore under Australia's foreign investment policy framework (announced on 29 March 2020);

(3) continuing to improve the sophistication of the regulatory environment around superannuation, to nurture a system that is focused on long-term net returns, along with ensuring that the Early Release Scheme does not establish a precedent for future policy changes of this nature.

To benefit early-stage high-potential businesses across all sectors of the economy, the Council recommends that the government work closely with the venture capital investment sector to establish a long-term action plan that seeks to lift Australia's innovation ranking through significant improvements in the translation and commercialisation of research discoveries. Numerous reviews and analyses completed over the past decade have consistently pointed to the nation's failure to secure more tangible returns on publicly-funded research investments as one of the major constraints facing the innovation pipeline. A cohesive strategy that seeks to address this issue, while at the same time facilitating improvements in Australia's capacity to attract the world's best and brightest talent with key STEM-related skill sets, will underpin the next wave of economic growth for the decade ahead.

[3] ABS (2020) Media Release: Employment Falls 594,000 in April to 12.4 million, 14 May.
[4] Ibid.
[5] NAB Group Chief Economist, Alan Oster (in his 14 May 2020 podcast) and various other analysts.
[6] The technology industry directly employs around 580,000 people (5% of Australia's workforce) and contributes more than $144 billion to the economy each year, representing 6.6% of GDP. Australia's Digital Opportunity, Alphabeta September 2019.

BARRIERS TO OUR ECONOMIC RECOVERY AND EXPANSION

Through a comprehensive member survey, a number of barriers to the economic recovery and expansion of Australian businesses were identified. Alleviating the most problematic aspects of these barriers, and developing a medium-term plan to address all of these issues, will go a long way towards allowing businesses and markets to re-build over time.

01

Business and travel restrictions

Restrictions on business operations and travel are the biggest barriers to economic recovery.

Until travel resumes, and businesses are permitted to operate freely within the appropriate regulatory framework, the economy will continue to be adversely impacted by a lower-than-normal pace of activity.

Many businesses will not be profitable until restrictions on business operations are lifted. The imposition of public health strategies that limit the types of services which can be delivered, and the number of customers that can be present, has had a profound impact on normal business operations. Returning to full activity will allow cafes and restaurants to put staff back on their rosters, personal trainers to return to fitness studios, and hotels to resume checking-in guests.

In the medium-term, easing international travel restrictions will support improvements in supply chains, and allow for the resumption of export and import trade activities across all industry sectors.

02

Cash flow and access to funding

The rapid drop-off in revenue experienced by countless industries over recent months has presented an existential challenge for businesses, who have had to rely to a large extent on government support programs to remain viable.

Access to funding and maintaining cashflow liquidity have consumed the leaders of all businesses, especially those in the SME segment, where prior years' reserves may have been exhausted. This has occurred at a time of significant capital market dislocation as domestic and international investors re-balance their exposure to risk. Evidence of capital 'rationing' has emerged over recent weeks, which evidences the extent of financial stress experienced by business.

Access to funding remains a material issue for most Australian businesses, despite the government guarantee of some categories of SME loans. In addition, institutional investors are facing their own challenges, notwithstanding the record-low interest rates and depressed market valuations in many industry sectors.

While federal, state and local government initiatives have been essential in supporting businesses through the low-point in economic activity, it is recognised that those programs cannot continue indefinitely, and it is important for organic cash flows to return. This pickup in activity will not materialise quickly, and it will only return when consumer confidence improves, and freedom of movement and spending levels increase.

03

Economic uncertainty and consumer confidence

COVID-19 has negatively impacted business and consumer confidence at a time when the economic outlook was already under pressure despite the longest period of uninterrupted growth in recorded global history.

The additional erosion of confidence has further driven down market demand and consumer spending, while at the same time, eroding job security and household incomes.

With businesses focused on survival, risk appetites have been re-balanced, leading to growth and expansion plans being shelved. Expenditure on research has fallen further, and management teams have – by necessity – turned increasingly inward-looking in their strategic focus. Money markets have exacerbated these conditions with the tightening of capital flows due to uncertainty about the short and medium-term outlook.

FOUR MAIN BARRIERS TO BUSINESS RECOVERY

01 Business and travel restrictions

02 Cash flow and access to funding

03 Economic uncertainty and consumer confidence

04 Social distancing and 'second wave' concerns

04

Social distancing and 'second wave' concerns

Compliance with social distancing rules and concerns about the potential for a 'second wave' of the COVID-19 pandemic will continue to have a clear and direct impact on business activity and confidence.

The public health ramifications of a second wave will be deeply damaging for the wellbeing of all households across the country, and the impact on businesses has the potential to be more significant and damaging than the first round of shutdowns. The priority for governments at all levels should be to maintain a careful balance between the need for various levels of strict controls to support public health management, while allowing measured steps to the resumption of normal daily life and economic activity.

REFORM PRIORITIES AND OPPORTUNITIES

To support the economic recovery challenge over the period ahead, ***Australia must embrace this moment in time as an opportunity to lay down a visionary plan that will underpin the next phase of prosperity and incomes growth for all Australians.***

The Australian Investment Council has for a long time been committed to advancing economic and social policy reforms that support economic growth by providing a stable framework for investment capital that drives productivity gains, improved market competition, and employment growth.

Governments at all levels have demonstrated over recent months a preparedness to collaborate and unite to deliver nationally important outcomes for the benefit of everyone in our community. The economic roadmap to recovery should be developed on the back of a wide range of inputs from all corners of society, and it should be dynamic in the way that it responds to evolution and change in the domestic and international context within which we exist.

As part of the 'first-mover' group of nations emerging from the COVID-19 pandemic, Australia has a unique opportunity to reshape the national economy for the future. The success of our willingness to embrace and capitalise on this opportunity will be defined by our preparedness to bring about meaningful long-term policy change that improves the standard of living for all Australians.

The Australian Investment Council's survey has identified seven key policy reform areas that should be prioritised.

01

Taxation reform

Reforming Australia's taxation regime is broadly considered to be the policy area with the greatest potential to reinvigorate Australia's economy over the long-term.

Australia's taxation system has been the subject of numerous reviews over the past decade, and many of the most significant recommendations set out in reviews remain relevant today. The most comprehensive of the recent reviews is the 2010 Australia's Future Tax System (AFTS) Review, led by former Treasury Secretary, Dr Ken Henry.

Many of the recommendations from that review are yet to be progressed. Taken as a whole, the tax reform blueprint set out in that work represents a compelling, growth-enhancing plan for a staged transformation of the tax mix across federal and state-based tax regimes. Some state jurisdictions within Australia have adopted elements of the blueprint in bringing about reform in their own regimes, but a coordinated national approach has not been agreed. The success of the National Cabinet of heads of government could serve as the perfect foundation on which consensus for reform could be built, and the unity around the common cause of building a stronger and more innovative Australian economy for the future could serve as the catalyst for change that has been absent in the past.

Some of the key priority reforms set out in the AFTS Review[7], as well as other growth-orientated analysis of our existing tax system, revolve around reducing the headline corporate income tax rate for all businesses to 25%, a step that would deliver incomes growth for all Australians, and at the same time, lift Australia's competitive standing in the global marketplace for capital and talent.

A reduction in the corporate income tax rate forms an important part of a broader strategy of shifting the nation's 'tax mix' by reducing reliance on direct taxes – such as personal and corporate income taxes – and re-balancing towards greater reliance on 'user pays' pricing mechanisms and indirect taxes. In the technology-enabled global marketplace in which Australian businesses operate, such a shift is vitally important to building a stronger and more sustainable budgetary position for governments at all levels into the future.

A short-term measure that should be considered is capital gains tax relief. This could induce an increase in investments into high-growth businesses and help kick-start the recovery.

SEVEN POLICY PRIORITY AREAS

- 01 Taxation reform
- 02 Market deregulation and red tape reduction
- 03 Innovation, technology and skills
- 04 Industrial relations reform
- 05 Infrastructure spending
- 06 International competitiveness
- 07 Superannuation and Australia's ageing population

01

TAXATION REFORM

- → Streamline Australia's taxation system to eliminate inefficient taxes.
- → Reduce reliance on corporate and personal tax revenue.
- → Work with states to introduce greater harmonisation in regimes.
- → Re-balance the tax mix between direct and indirect taxes.
- → Use the newly formed National Cabinet as an opportunity to unite behind the common purpose of improving the competitiveness of Australian businesses.

COVID-19 CREATES A CATALYST FOR AUSTRALIA TO CLOSELY ASSESS ITS SOVEREIGN CAPABILITY IN A NUMBER OF KEY INDUSTRY SECTORS.

[7] Australia's Future Taxation System Review.

REFORM PRIORITIES AND OPPORTUNITIES (CONT.)

02

Market deregulation and red tape reduction

The sharp downturn in economic activity and consumer spending is being compounded by an overwhelming concern that the burden of creeping red tape and regulatory compliance costs are stretching business viability.

It is well recognised that red tape and regulatory cost burdens tend to move in cyclical phases every 10-15 years. Removing red tape and introducing greater efficiencies drive increases in productivity, competitiveness and high-value jobs growth. Past experience in Australia suggests that attempts to reduce red tape at a federal and state level have sometimes been narrow in scope, and therefore failed to achieve the desired economic and business outcomes.

It may be instructive to revisit the 2013 Coalition Government analysis in *'Boost Productivity and Reduce Regulation'*[8] which outlined a whole-of-government framework to reduce the red and green tape burden by at least $1 billion per year. Amongst numerous recommendations, the report recommended at least two Parliamentary Sittings be dedicated each year to repeal counterproductive or unnecessary regulation, and that COAG meetings – now National Cabinet – include deregulation and red tape as standing items for discussion and review throughout the year.

The Council also encourages government to implement the recommendations contained in the Productivity Commission's *Shifting the Dial*[9] review in 2017, particularly in respect of the opportunity for National Cabinet to adopt a formal joint reform agenda.

Reinstatement of the core principles set out in the 2013 report, and the adoption of recommendations from the Productivity Commission's 2017 analysis, should form part of a comprehensive and clear commitment to eliminate red tape costs for businesses over the short and medium-term.

Governments and regulators should resist the temptation to develop new laws and regulations and implement additional red tape only where there is a clear and unavoidable need, for example where industry is not able to independently react to market ineffectiveness or consumer harm. Where new laws or regulations are required, they should be implemented through enabling technology.

Government regulators should also expand the use of regulatory sandboxes to help dictate new ideas and products, building on concepts of the enhanced regulatory sandbox recently announced by the Government[10].

03

Innovation, technology and skills

Innovation, technology and skilled labour have the capacity to directly contribute to economic output and to indirectly lift productivity, global competitiveness and create jobs across the economy.

Despite a skilled labour force, Australia ranks second last in the OECD – ahead of Mexico – for the relative size of our technology sector and as of 2016, was 34% behind our OECD peers across four core areas of digital innovation, including the application of digital technologies to existing industries. These results show the huge capability gaps that Australia can make up, but only if the right policy settings are adopted.

Notwithstanding our relatively low global rankings, the domestic technologies sector contributes $122 billion each year, or 6.6% of GDP, to the Australian economy[11]. This is expected to grow 40% between 2018 and 2023.[12]

The productivity-enhancing impact of a vibrant innovation and technology sector can extend across almost all existing industries while strong domestic innovation and technology skills can support and develop new sectors, such as strategic manufacturing capabilities.

For Australia to make material gains in innovation and technology, government policies need to encourage businesses to take risks, to develop new ideas, new products and to find new markets. *The Australia 2030: Prosperity through Innovation*[13] report by Innovation and Science Australia set out 30 key reform initiatives across five key strategic pillars: education, industry, government, research and development, and culture and ambition. The recommendations are targeted at creating a more knowledge-intensive innovative economy that is capable of delivering a higher standard of living for current and future generations of Australians. Increasing business investment in research and development, more impactful collaboration between universities and businesses to commercialise research discoveries, and lifting STEM capabilities within our workforce are central to achieving a more advanced economy in years to come.

02

MARKET DEREGULATION AND RED TAPE REDUCTION

- → Remove superfluous and counterproductive legislation and regulation.
- → Encourage Commonwealth, State and Territory governments to adopt a formal joint reform agenda with coordination and alignment across all agencies.
- → New laws and regulations should be implemented through enabling technology.

03

INNOVATION, TECHNOLOGY AND SKILLS

- → Focus on technology and innovation as an enabler for building employment and growth across the economy.
- → Implement the recommendations ISA's 2030 Report.
- → Identify technical skills gaps and develop programs to build a pipeline of talent within Australia.
- → Encourage highly skilled immigration as a short-term measure to fill the talent gap.
- → Unlock the transformative power of government procurement to accelerate the growth of smaller technology-enabled businesses.

[8] The Coalition's Policy to Boost Productivity and Reduce Red Tape 2013.
[9] Shifting the Dial: 5-year productivity review, Productivity Commission 2017.
[10] Media Release, Regulatory Sandbox will boost fintech innovation and competition, Senator Jane Hume, 28 May 2020.
[11] Australia's Digital Opportunity, AlphaBeta September 2019.
[12] Deloitte Access Economics, Australia's Digital Pulse 2019.
[13] Australia 2030: Prosperity through Innovation.

REFORM PRIORITIES AND OPPORTUNITIES (CONT.)

04

Industrial relations reform

A high degree of productivity is lost in Australia's industrial relations system as employers and employees try to manage their obligations within a regime that is often seen as holding us back from achieving the level of productivity gains necessary for our future economy.

A complex awards-based system, onerous workplace agreement requirements, inconsistency and uncertainty around the definition of casual employment, and the overall lack of flexibility afforded between businesses and their talent base are amongst a range of issues that warrant targeted focus by government as part of the nation's efforts to lift productivity while minimising compliance and red tape costs. The Government's announcement regarding industrial relations reforms as part of its JobMaker initiatives provides a good platform to advance these issues.

We welcome the Government's intent to develop a more flexible industrial relations system, particularly for SMEs and fast-growing businesses that need flexibility in working arrangements for their talent base and their recruitment strategies. A more flexible industrial relations system should also empower a technologically capable workforce and facilitate the ongoing inclusion of older workers – an issue which will increase in importance as our population continues to age over years to come.

Streamlining Australia's enterprise bargaining agreement process will be welcomed by many businesses as it is seen as being convoluted, complex, and overly prescriptive. The process is also inherently compliance intensive, necessitating considerable investment of time on the part of both employers and employees. There is significant scope to streamline the enterprise bargaining regime, and in doing so, deliver improved productivity outcomes and reduce unnecessary regulation and compliance costs. In this area, Australia would benefit from a closer analysis of the equivalent regime that exists in New Zealand, where there are half as many legislative provisions as those in Australia.

The Productivity Commission's *Workplace Relations Framework*[14] in 2015 made a number of recommendations that are yet to be implemented. The Council recommends that work be done to refresh the analysis completed in 2015, with an eye to defining the prioritisation of reforms that will translate to improvements in productivity and innovation across our economy. The prosperity of the future Australian economy will require a significant investment in creating industries and labour market mechanisms to enable more highly-skilled jobs to be established here, rather than abroad.

05

Infrastructure spending

Infrastructure spending should be increased to boost economic activity in the short-term and deliver productivity gains over the longer-term.

A comprehensive plan for a broad-based infrastructure spending program should be developed, with a focus on telecommunications and technology, transportation, renewable energy, and water, as key enablers of the future.

In a country as large (and sparsely populated) as Australia, there is a need for accessible, quick, efficient and reliable rail and road systems, ports and transport nodes. Such a system would improve delivery times for products and materials throughout the nation, while introducing efficiencies that reduce costs. As the local manufacturing capability grows, logistics and supply chain connections will be imperative for business productivity and profitability.

An improved transportation system will also support the domestic agriculture sector – anticipated to be Australia's next $100 billion industry. For that growth potential to be realised, Australia's water capabilities need to be improved. Freeing up water from the Murray-Darling Basin is a key priority in this area. Infrastructure Australia's high priority strategy for water[15] needs to be implemented, quickly.

It is imperative that Australia has a clearly stated direction for delivery of infrastructure that will strike a balance between short, medium and long-term developments that are central to the nation's growth strategy.

04

INDUSTRIAL RELATIONS REFORM

- → Overhaul and simplify the industrial relations system to reduce compliance costs and increase productivity.
- → Increase flexibility for workplace arrangements, particularly for SMEs and fast-growth businesses.
- → Streamline the enterprise bargaining process.

05

INFRASTRUCTURE SPENDING

- → Increase infrastructure spending to boost economic activity in the short-term and productivity in the longer term.
- → Focus on telecommunications, transport and water to set up Australia for future success.
- → Improve national rail and road systems to speed up delivery times.

AUSTRALIA'S ENTERPRISE BARGAINING AGREEMENT PROCESS IS CONVOLUTED, COMPLEX, AND OVERLY PRESCRIPTIVE.

[14] Workplace Relations Framework, Productivity Commission 2015.
[15] Infrastructure Australia Priority List 2020.

REFORM PRIORITIES AND OPPORTUNITIES (CONT.)

06

International competitiveness

Australia has an opportunity to emerge from the COVID-19 pandemic as a more competitive nation in the global marketplace.

The key elements to our success will be prioritising industries where we already are – or could be – world leaders, and 'going narrow and deep' in developing these industries.

Most of these elements can be achieved by focussing on a small but targeted range of the policy reform areas identified above. In addition, growing industry sectors across and the Australian economy will require a reliable flow of inbound investment capital. As a net importer of capital, Australia must implement policy settings that not only support, but encourage foreign investment into Australian businesses.

In a recent address[16] to the National Press Club, the Industry, Science and Technology Minister, the Hon Karen Andrews MP, highlighted the need to align manufacturing with science and research efforts in areas where Australia is best placed to excel, such as: biomedical technology and therapeutics, as well as FinTech, to support the commercialisation of good ideas, and to improve access to export markets.

This points to building a strong foundation to enhance our domestic capability. This will help build a domestic manufacturing industry that will sustain the economy and make Australia internationally competitive. We recommend the government significantly enhances Australia's Export Market Development Grant (EMDG) program to enable SME market businesses who already have a demonstrable track record in the area to accelerate growth through the sale of high-value goods and services offshore.

07

Superannuation and Australia's ageing population

Amongst many things, the COVID-19 global pandemic has served the purpose of shining a spotlight on Australia's superannuation system.

Approximately 1.6 million Australians have so far applied for early access to their superannuation savings under the government's temporary measure, amounting to a combined value of $10.6 billion in early withdrawals, which will likely continue to grow over coming weeks and months.[17] While the temporary change is undoubtedly welcome relief from financial stress for thousands of households across the nation, it is important to recognise the longer-term consequences of early release on retirement savings. It is vitally important that this temporary measure does not set a precedent for future early release concessions that will have the effect of further eroding the savings base required for the long-term security of Australian workforce once they reach retirement age. The superannuation system is, by its very nature, a long-term investment strategy that should carefully balance risks and returns, with delivering a stable and sustainable retirement income in parallel with the social security system.

There is an opportunity for the government to look at longer-term policies to support superannuation fund members with recouping the drawdown in funds seen as a result of the early release scheme. For example, temporarily increasing the annual superannuation contribution threshold to allow members to make up for withdrawals should be considered as an appropriate and measured policy response to counterbalance the effect of the early release scheme.

With Australians working and living longer, superannuation investment strategies should be aligned – to the greatest extent possible – with the nation's future economic and financial needs. There is a need to clearly define our superannuation system as recommended in the Financial System Inquiry[18], and to have a consistent set of policies that work towards common objectives which deliver long-term confidence in the system.

As patient capital investors, superannuation funds provide a natural means for investment into projects and infrastructure for the long-term viability and sustainability of Australia's economy, and through that, the retirement savings system. Investments into social and low-cost housing, for example, would provide significant benefits to core groups of Australians, while investment into high-potential domestic businesses will help underpin growth in new employment and economic activity over the long-term.

A more diverse superannuation pool, with a much greater focus on after-fee net returns, will greatly assist in increasing the stability of our superannuation system, supporting our ageing population and reducing liquidity pressure.

06

INTERNATIONAL COMPETITIVENESS

- → Focus on developing the industries where Australia has a competitive advantage.
- → Enhance Australia's manufacturing capability and align it with science and research developments.
- → Support Australian businesses to leverage offshore capital and export markets to fund growth and expansion.
- → Improve the scope and funding pipeline for EMDGs.

07

SUPERANNUATION AND AUSTRALIA'S AGEING POPULATION

- → Increase diversity in superannuation investments to improve system stability, support our ageing population and reduce liquidity strains.
- → Move the focus of the public and regulators to increasing after-fee net returns and, therefore, higher superannuation balances in retirement.

[16] National Press Club Address May 2020, Karen Andrews, Minister for Industry, Science and Technology.
[17] APRA COVID-19 Early Release Scheme Dashboard at 17 May 2020.
[18] Financial System Inquiry Final Report, December 2014.

WORKING TOGETHER TO BUILD A BETTER FUTURE

We believe in building a stronger economy that supports Australians, Australian entrepreneurs and Australian businesses in a way that is environmentally responsible and socially inclusive.

The Australian Investment Council and its members have provided the insights set out above as a constructive contribution to progress the national conversation about how we can all play a role in defining the nation's roadmap to recovery over the months and years ahead.

Survey Methodology

In May 2020, the Australian Investment Council conducted a detailed quantitative and qualitative survey of its members to garner insights into the impact of the COVID-19 pandemic on Australian businesses backed by private capital investment, and into the policy options and areas most critical to nation's economic recovery. Approximately 50% of the Council's fund managers responded to the survey, along with a statistically significant proportion of the Council's large institutional investor funds and key corporate advisory firms. The Council considers that the survey responses are meaningful and representative over the private capital industry's broad views.

About the Australian Investment Council

The Australian Investment Council is the voice of private capital in Australia. Private capital investment has played a central role in the growth and expansion of thousands of businesses, which when combined represents a multi-billion-dollar contribution to the Australian economy. Our members are the standard-bearers of professional investment and include: private equity, venture capital and private credit funds, alongside institutional investors such as superannuation and sovereign wealth funds, as well as leading financial, legal and operational advisers.

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AS PART OF THE 'FIRST-MOVER' GROUP OF NATIONS EMERGING FROM THE COVID-19 PANDEMIC, AUSTRALIA HAS A UNIQUE OPPORTUNITY TO RESHAPE THE NATIONAL ECONOMY FOR THE FUTURE.

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