18 March 2021

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Via email: economics.sen@aph.gov.au

Submission to inquiry into *Treasury Laws Amendment (Your Future, Your Super) Bill 2021* [Provisions]

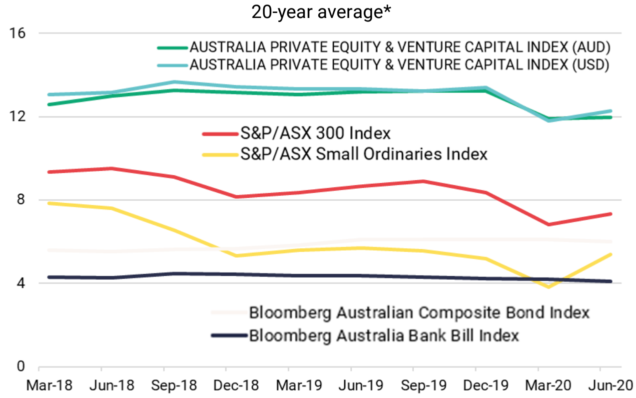
Dear Sir / Madam,

The Australian Investment Council is pleased to present its submission to you as part of your inquiry into the *Treasury Laws Amendment (Your Future, Your Super) Bill 2021* [Provisions].

Private capital investment has played a central role in the growth and expansion of thousands of businesses and 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. Our members include both Australian domestic and offshore-based firms.

Private capital fund managers invest billions of dollars into Australian companies every year. The private capital investment asset class has delivered investors an average net return after fees of 12.49 and 11.97 per cent per annum, over the past 10 and 20 years, respectively.[1] This strong performance has provided Australian superannuation funds with superior returns and valuable diversification. In response, Australian superannuation funds have increased their investment into and alongside private capital funds.

Figure 1: Annual Net returns to Limited Partners (%)
20-year average*



* 15-year average for March and June 2018
Source: Cambridge Associates Benchmark Data

Investment by superannuation funds into private capital assets, to gain superior returns and risk diversification, is consistent with the government's policy objectives of ensuring that Australia's superannuation funds have the capacity to continue to make investments which improve the long-term retirement outcomes of their members.

[1] Cambridge Associates, Australia Private Equity & Venture Capital Index and Selected Benchmark Statistics (Q2 2020)

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These investments also assist the private capital industry's ability to create Australian jobs and support the Australian economy; Australia's private capital industry represents 2.6 per cent of Australia's GDP output each year, and private capital-backed businesses create 1 in 9 new Australian jobs according to independent analysis by Deloitte Access Economics.[2]

Delivering the sort of outperformance described above through unlisted asset strategies is underpinned by the role that our industry plays in driving innovation and industry modernisation – attributes that we all agree are critically important to Australia's economy recovery from the COVID-19 induced recession. With the ongoing health and economic challenges, the ability of the private capital industry to provide superior returns, risk diversification and to support Australia's next generation of leading companies is arguably more important than ever.

Performance benchmarking for private capital unlisted assets

The private capital industry is supportive of adopting the current proposal which would see unlisted private capital investments benchmarked against listed equities.

It is important to acknowledge, however, that given the uncertainties which surround how investment decision making will be impacted over the short and medium-term by the introduction of these reforms, it would be prudent for the government to ensure the implications are monitored in real time; this includes the allocation of funds.

It is vitally important that the implementation of these reforms delivers the government's stated policy objectives of ensuring that superannuation fund members benefit from strong net of fees performance, and that funds can continue to invest in asset strategies, such as private capital, to achieve significant returns outperformance.

The Council encourages continued constructive engagement with industry as the details of the reforms are further developed. This is particularly important as the (draft) regulations are developed.

Fees – management vs administration

The Council urges the Committee to consider the merits of assessing performance on a net of 'total fees' basis, in line with APRA's heatmap approach.

Focusing (consumers) only on management fees, ignores a material cost to superannuation balances, that being administration fees. Taking a simple average of the fees data presented in APRA's heatmap shows (on a $50,000 account balance) administration fees of 0.48 per cent, where total fees averaged 1.09 per cent.[3]

Additionally, focusing on management fees will potentially motivate some funds to move expenses into 'administration'. This can be done, for example, by directly employing specialists rather than using external firms. This would result in inefficiencies due to duplication of services across the industry which will likely increase total expenses. A flow-on effect of decentralising Australia's expertise would be to reduce our nation's capacity and standing as a financial services provider in the region.

The issue of focusing exclusively on management fees disproportionately impacts actively managed investment strategies, such as private capital, more so than other asset classes. These active strategies incur fees from the active management of invested funds, fees that cannot and should not be artificially transferred to administration expenses.

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[2] Deloitte Access Economics (2018) Private Equity: Growth and Innovation, April

[3] APRA Heatmap fees and costs data as at 29 May 2020.

Reporting a single measure of 'total fees' would eliminate the potential consequences identified above. This would also align with APRA's heatmap approach which incorporates a focus on 'total fees'.

Furthermore, the emphasis on fees comes at the expense of focusing on (net) returns and, to a greater extent, risk. It may be beneficial from a consumer education and informed decision-making point of view to include a metric or indicator of risk in addition to those of fees and returns.

Regulations and reform impacts

Some of the detail of the reforms will be contained in the forthcoming regulations. It is vitally important that the regulations are drafted to achieve the Government's intent without imposing unnecessary costs or generating unintended consequences. For example, the portfolio holding disclosure exemption has protected member value by not requiring superannuation funds to make public commercially sensitive information, where doing so would be detrimental to the interests of members. In this instance, how the regulations balance the need for transparency with the need to protect member value will be important.

The Council encourages the Committee to consider the regulations, when they are made available, as part of its inquiry.

We look forward to participating in any future discussion about the themes set out in this submission. If you have any questions about specific points made in our submission, please do not hesitate to contact me or Brendon Harper, the Australian Investment Council's Head of Policy and Research, on 02 8243 7000.

Yours sincerely

Yasser El-Ansary
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