

12 November 2018

Deputy Chair  
Productivity Commission  
Level 12, 530 Collins Street  
MELBOURNE VIC 3000

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### **Submission in response to the supplementary paper – Investment Performance: Supplementary analysis**

AustralianSuper is grateful for the opportunity to make a submission in response to the supplementary paper, and welcomes the approach taken by the Commission in attempting to attribute the causes of performance differentials in its supplementary analysis.

We commend the Commission's effort on providing insights to the drivers of performance, but we believe the research needs to be taken further to provide the industry with better clarity on the key factors that impact performance.

We are concerned with the use of the term "residual" and the size of the residual. The performance differentials between funds across the industry is a key strategic issue. Most of the data and methodology used in the Commission's analysis appears sound, but for any analysis to be complete the unexplained differences in a residual should be small and have no bias/impact on the conclusion. In the analysis, the size of the residual is extremely large and leaves too much performance unexplained. A large residual leaves it open for the public, politicians and regulators to draw subjective conclusions from the data, rather than have the facts being unbiased and easily observable. Therefore, we strongly recommend the Commission gather further data and undertake a revised analysis to identify factors driving the "residual".

### **Comment on the draft recommendations**

Consistent with AustralianSuper's prior submission to the Commission, we don't believe the draft recommendations will fix the key issue identified by the Commission in its draft report – i.e. that the persistent underperformers should be removed from the system as a first priority.

In addition, we note on the draft recommendations the following:

#### **Draft recommendations**

- *The Australian Government should legislate to extend MySuper regulations limiting exit and switching fees to cost-recovery levels to all new members and new accumulation and retirement products (DR 12).*

We support this recommendation and confirm that you mean it to include all choice products.

We also note that the 'Protecting your Super' legislation package currently in the Senate will ban exit fees, however, this may result in buy/sell spreads and switching fees increasing. Further consideration of how to actually police the 'cost recovery' requirement in the MySuper regime, in particular where related party transactions are involved, would be helpful here.

ASIC is currently reviewing fee/cost reporting under ASIC Regulatory Guide 97 (RG97) – and we suggest that the Commission work with ASIC to examine how RG97 can be improved to deliver comparability in fee/cost reporting.

- *The Australian Government should require superannuation funds to clearly inform, on an annual basis, all members who are subject to trailing financial adviser commissions ... (DR 13).*

AustralianSuper supports any proposal that seeks to make it clear to members that they are paying trailing commissions to a financial adviser.

AustralianSuper suggests that this may not be sufficient to protect members, particularly those in cognitive decline who continue to pay a trailing commission. Also, this does not address the issue of what action a member may initiate if they do not want to pay trail commissions anymore.

AustralianSuper supports appropriate legislative measures that would ban grandfathered trailing commissions.

### **Minor concerns on benchmarking and attributions**

There are some relatively minor comments on benchmarks and related data issues noted below. However, we do not believe these issues would alter the broad conclusions of the performance analysis:

*i. International equities*

A large number of funds underperformed the international equity benchmark, but there are two causes which we suggest the Commission should take into account, which are (i) the effect of funds investing in emerging markets, which is excluded from the MSCI World ex-Australia index used, and (ii) the potential for currency hedging to materially affect results.

*ii. Infrastructure benchmark.*

The results in figure 1 and 2 of the report suggest the MSCI/IPD Australian unlisted infrastructure index may not be a truly representative index of the unlisted infrastructure sector, as fund composition may have resulted in a return differential between the index and super funds actual returns in infrastructure. Looking at the time period, our opinion is that about 70% of the underperformance of can be attributed to two periods, the GFC (08/09) and 2014. We suggest the Commission seek a more representative customised benchmark or use an average or median of funds' performance. At AustralianSuper, we have commissioned an independent

party to construct a benchmark explicitly to represent the investable infrastructure universe, for internal analysis.

iii. *Tax paid by funds:*

Figure 10 indicates not for profit funds are paying more tax than retail funds, pointing to some inaccuracies on the tax assumptions or methodology used. This suggests there are actually tax management factors in the “residual”, which further clouds the attribution results.

If you wish to discuss this matter further please do not hesitate to contact me  
or Scarlett Wang

Yours sincerely,

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**Strategic Policy Advocate**