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**Productivity Commission**

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13 November 2018

Ms. Leeanne Turner  
Chief Executive Officer  
MTAA Superannuation Fund  
PO Box 6273  
Kingston ACT 2604

Dear Ms. Turner

*Leeanne*

Thank you for your letter dated 26 October 2018 about the Commission's current Superannuation Inquiry.

The Commission appreciates and understands the importance of taking account of risk when comparing the investment performance of superannuation funds and products.

In developing the assessment framework (in our 2016 Stage 1 Study) to assess the competitiveness and efficiency of the superannuation system in our current stage 3 Inquiry, we carefully considered various techniques to risk-adjust returns. This was done on the basis of public submissions, technical roundtables and consultation with academic and industry experts. Based on that extensive consultation, we decided to evaluate the performance of the superannuation system (notably a system-level assessment) using measures of net returns over a long time horizon (to reflect the impact of diversification and average market volatility). We also decided to undertake most of the evaluation relative to 'benchmark portfolios' that control for differences in asset allocation (a significant contributor to risk-adjusted returns) across segments, funds and products.

This approach is detailed on pages 115 to 120 of the Stage 1 final report (November 2016) and pages 94 to 98 of the stage 3 draft Inquiry report (April 2018). Pages 35 to 43 of the recently released supplementary paper on investment performance (available on our website) describes how we have refined our approach in response to public submissions on the draft report.

We have also acknowledged that volatility in investment returns is particularly important for some members that are close to retirement. Accordingly, we undertook a detailed simulation

of sequencing risks as part of our evaluation of life-cycle products. This approach is detailed on pages 190 to 195 of the stage 3 draft report and pages 7 to 11 of technical supplement 6 to the draft report.

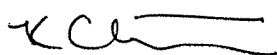
Our investment performance assessment (as referenced above in our draft Inquiry report and supplementary paper) informs our system-level assessment of the competitiveness and efficiency of the superannuation system. This is distinct from the selection criteria (as outlined in our draft Inquiry report) to inform the proposed 'best in show' assessment by an expert panel. Some media and commentators have wrongly conflated the two.

The Commission agrees that risk should be a relevant consideration for any expert panel selecting default superannuation products. In our stage 3 draft Inquiry report, we suggested that an expert panel should consider the match between a product's long-term investment return target and risk profile for the types of members who typically default, as well as the likelihood of producing long-term returns for members (see pages 435 and 461 of the draft report). We do not consider that a narrow focus on past performance in isolation would be appropriate or desirable.

We received a significant amount of feedback on the draft report by way of public hearings and submissions, and accordingly the Commission will (as we do with all our inquiries) revisit and refine our analysis for the final report (to be sent to Government by the end of 2018). This consultation will inter alia inform how the Commission may refine its draft recommendations and findings as we finalise our report to Government, including the assessment criteria to be considered by an expert panel for the proposed best in how list.

As our practice is to engage in open and transparent public consultation, we would like to publish your letter, along with our response, on our website. Please contact Jane Melanie (on 02 6240 3380) by Monday 19 November if you have any issues regarding us doing so.

Yours sincerely



Karen Chester  
Deputy Chair



Angela MacRae  
Commissioner