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Private capital: Australia's untapped opportunity

Removing barriers to superannuation investment

NOVEMBER 2025

Contents

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Note: All dollar figures are Australian dollars unless indicated otherwise.

Executive summary

The primary driver of superannuation member outcomes is risk-adjusted net returns, making private equity and venture capital (PEVC) a compelling asset class for superannuation investment.

Superannuation funds can maximise returns by investing in PEVC, which has an annualised 10-year return that is 10.8 percentage points higher than Australian listed equity. MySuper products which allocate more to PEVC achieve 3x the fee efficiency compared to products with below-average allocations, due to fees 'purchasing' superior returns. PEVC also has diversification benefits, and a patient capital approach which suits superannuation funds.

Despite these benefits, superannuation funds are under-allocating to PEVC, negatively impacting member retirement outcomes.

Modelling within this report has found that, to maximise net returns from MySuper products while maintaining the existing balance between growth and defensive investments, an additional $54 billion should be invested into PEVC. This would bring Australia's allocation to PEVC closer to the best performing global pension funds.

An enhanced allocation to PEVC, of an additional $54 billion, would boost retirement income, and would support additional jobs in Australia.

The PEVC under-allocation is costing retirees up to $20k - comparable to the benefits they would gain from raising the Superannuation Guarantee from 12 to 12.5% - as well as costing up to 140k Australian jobs. Under-allocating to PEVC also risks Australia missing out on capturing opportunities in priority areas. PEVC can provide capital for the energy transition, modern manufacturing, and the care sector.

Regulatory barriers are key factors leading to the under-allocation to PEVC by superannuation funds.

Australia's allocation to PEVC has not increased in line with international trends. This is despite Australian PEVC being an attractive opportunity, demonstrated by increases in international funding.

Regulatory Guide 97 (RG 97) and Your Future, Your Super (YFYS) are regulatory barriers contributing to the under-allocation to PEVC. RG 97 incentivises prioritising fee reduction over net returns and creates an unlevel playing field against unlisted assets.

The YFYS performance test uses an inappropriate benchmark, creating distortionary behaviour that harms member outcomes.

Fixing the distortionary effects of RG 97 and YFYS would improve member outcomes and grow the pool of capital for Australian projects.

To address the distortionary effects of YFYS, funds should be benchmarked based on net returns, the most important metric for member retirement outcomes.

Three additional key actions are recommended to help fix the distortionary effects of RG 97 and improve member benefits:

- Reporting an additional fee efficiency metric
- Prioritising net returns
- Providing clarifying information on investment fees

PEVC is a key mechanism to improve member retirement outcomes and enable superannuation funds to invest in innovation and growth. Small regulatory adjustments which have little to no cost to employees, employers and government could lead to materially better retirement outcomes for superannuants as well as a greater pool of capital to fund the nation's priorities.

Australia's current superannuation performance testing and transparency framework is overly focused on implementation efficiency and investment fees, at the expense of risk-adjusted net returns

Superannuation performance testing and transparency framework

PURPOSE	MECHANISM	KEY ISSUES	IMPACT ON TRUSTEE BEHAVIOUR
Performance	YFYS performance test	• Assesses implementation of strategic asset allocation, not the strength of the strategy • For underperforming funds, members are notified, with new members potentially restricted for consecutive failures	 Encourages benchmark hugging rather than maximising net returns
Transparency	APRA CPPP	• Emphasises funds total fees, influencing stakeholder perceptions and decisions • Includes results from YFYS performance test	 Encourages prioritisation on fee reduction rather than maximising net returns
	RG 97	• Requires funds to disclose investment fee information outside the context of their impact on net returns	
	ATO YourSuper Comparison Tool	• Allows members to list products by fees, encouraging an outsized focus on low cost • Includes product fees from RG 97 and results from YFYS performance test	

Source: Mandala analysis.

Fixing the distortionary impacts of RG 97 and YFYS would ensure a focus on maximising net returns for superannuation members while unlocking jobs and economic opportunities in priority sectors

Private equity and venture capital (PEVC) can support Australian superannuation funds in delivering the best outcomes for their members

PEVC's characteristics make it a compelling asset class for superannuation:

- Net returns: Annualised 10-year returns 10.8 percentage points higher than Australian listed equity and 6.7 percentage points higher than global listed equity
- Net returns: On average, MySuper products with higher PEVC allocations create an additional 54 basis points of value
- Risk: Diversification benefits, with a lower average correlation compared to other asset classes
- Investment horizon: PEVC has a patient capital approach which would suit superannuation funds

Despite these benefits, superannuation funds are under-allocating to PEVC, negatively impacting member retirement outcomes

- An enhanced allocation to PEVC would result, in the current environment, in an additional $54 billion invested into PEVC from MySuper products
- The under-allocation to PEVC is costing retirees up to $20k (equivalent to raising the Super Guarantee from 12 to 12.5%) and up to 140k Australian jobs
- Under-allocating to PEVC risks the capital needed for Australia to capture opportunities in priority areas such as the energy transition, modern manufacturing, and the care sector
- Australia's allocation to PEVC has not increased in line with international trends, despite Australian PEVC being an attractive opportunity as shown by increases in international funding

Fixing the distortionary effects of RG 97 and YFYS would improve member outcomes and grow the pool of capital for Australian projects

RG 97 and YFYS are distortionary regulatory barriers contributing to the under-allocation to PEVC

To address the distortionary effects of YFYS, **funds should be benchmarked based on net returns**, the most important metric for member retirement outcomes

To help fix the distortionary effects of RG 97, improve member outcomes, and capture national benefits, three key actions are recommended:

- **Reporting an additional fee efficiency metric**
- **Prioritising net returns**
- **Providing clarifying information on investment fees**

1 **Private equity and venture capital (PEVC) are key to supporting Australian superannuation funds to deliver the best outcomes for their members**

2 Australian superannuation funds under-allocate to PEVC, costing retirees up to $20,000 and up to 140k Australian jobs

3 Regulatory barriers are contributing to the under-allocation to PEVC by superannuation funds

4 Removing regulatory barriers to PEVC allocation would allow superannuation funds to realise the benefits of PEVC investment

5 Appendix

Private equity & venture capital characteristics make it a compelling asset class for superannuation investment as it delivers strong risk-adjusted net investment returns over the long term

Superannuation funds' objectives and the characteristics of private equity and venture capital (PEVC)

	A NET INVESTMENT RETURNS	B RISK	C INVESTMENT HORIZON
Superannuation objectives	Superannuation funds must optimise net-fee returns to satisfy their sole purpose[1] of providing retirement benefits, including through: • Demonstrating how asset classes are expected to optimise returns for beneficiaries[2]; and • Identifying how the sources of returns are expected to interact and impact diversification.[3]	Superannuation funds must manage various risks and balance the composition of investments to ensure adequate diversification, including through: • Considering risk factors when diversifying[4]; and • Using risk budgeting to determine the optimal allocation based on return per unit of risk for each asset class.[5]	While managing liquidity, superannuation funds are able to make investment decisions based on long-term investment goals due to preservation policy settings, including through: • Demonstrating how each investment achieves diversification to support long-term investment goals.[6]
Supported by PEVC characteristics	PEVC has delivered highly attractive returns compared to traditional asset classes. Over 10 years, Australian PEVC returns have been 18.2% annually, around 10.8 percentage points higher than Australian listed equity and 6.7 percentage points higher than global listed equity.[7]	PEVC offers diversification benefits, reducing risk for portfolios.[8] PEVC returns are not strongly correlated with returns from other key traditional asset classes.[9]	Returns from PEVC investments often take longer to materialise than for other asset classes with a typical horizon of fund investments from 10-12 years,[10] which suits the long-term nature of superannuation investing.

Notes: 1 – SIS Act s 62. 2 – SPG 530 s 52. 3 – SPS 530 s 20. 4 – SPG 530 s 44. 5 – SPG 530 s 57. 6 – SPG 530 s 43. 7 – Australian listed equity returns from the S&P/ASX 300 Total Return Index, global listed equity returns from the MSCI ACWI Net Total Return (unhedged), and AU private equity returns from Cambridge Associates. 8 – From JP Morgan (2023) and Macquarie Group (2021). 9 – From JP Morgan 2024 Long-Term Capital Market Assumptions. 10 – Typical life of investments from capital commitment to final distribution.
Sources: *Superannuation Industry (Supervision) Act 1993* (Cth); *Prudential Standard SPS 530 Investment Governance (SPS 530)* (2022); *Prudential Practice Guide SPG 530 Investment Governance (SPG530)* (July 2023); S&P; Cambridge Associates; JP Morgan (2023, 2024); Macquarie Group (2021).

PEVC delivers superior returns to other asset classes, supporting superannuation funds to optimise net returns for members

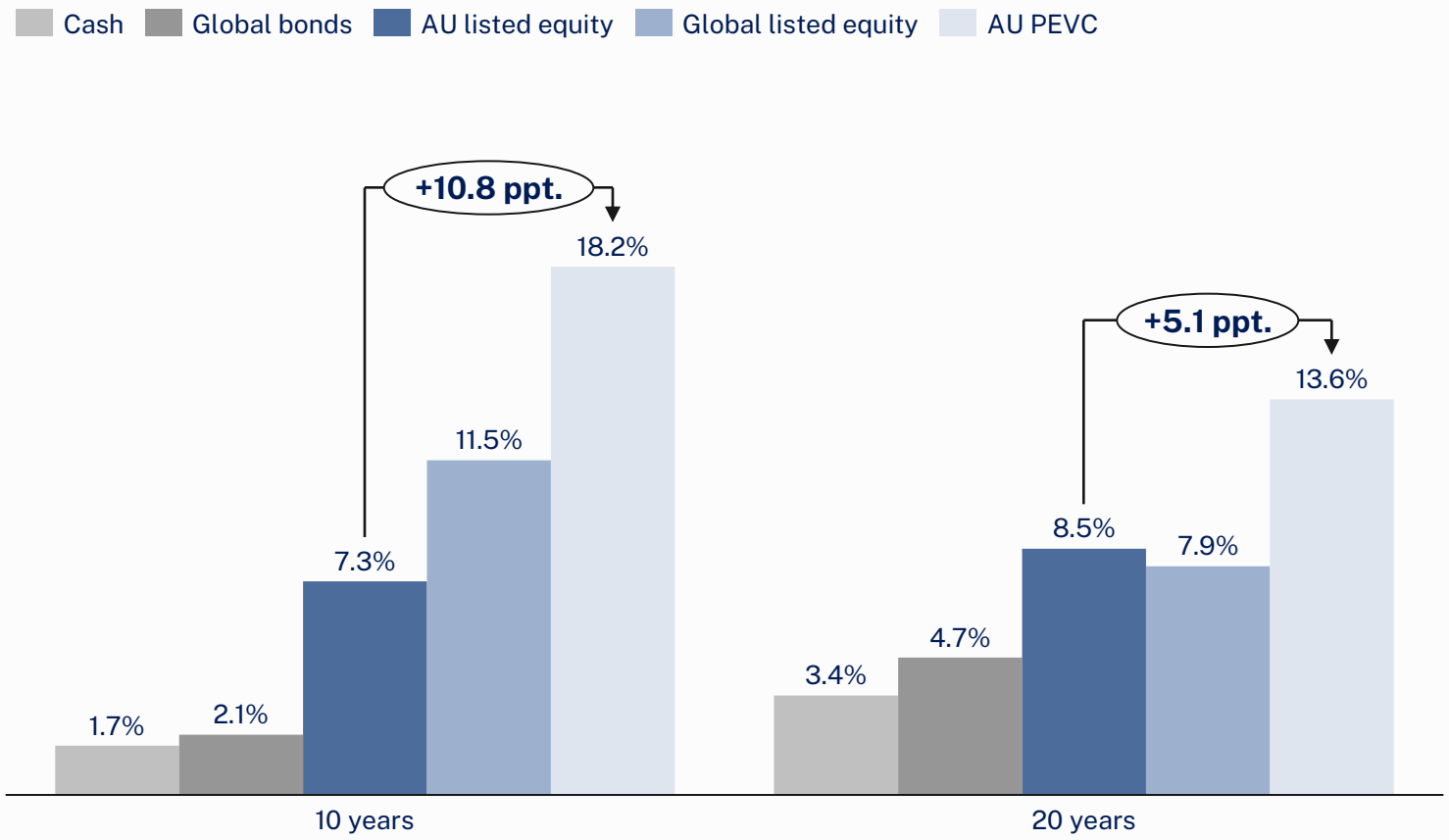
Investment in private equity and venture capital (PEVC) can help superannuation funds improve risk-adjusted net returns for members, a fundamental part of superannuation funds' sole purpose duty to provide retirement benefits.

PEVC delivers higher annualised net returns than traditional asset classes, consistently outperforming listed equities over multiple horizons after fees. Over 10 years, Australian PEVC net-fee returns have been 18.2% annually, around 10.8 percentage points greater than the 7.3% return for Australian listed equity and 6.7 percentage points greater than the return for 11.5% return for global listed equity. Over 20 years, Australian PEVC returns have been 13.6%, greater than Australian listed equity, global listed equity, global bonds, and cash. The compounded returns on PEVC are three times higher than listed equities over 20 years.

PEVC has maintained historical outperformance through active long-term involvement with growth assets. Governance control and greater information enables PEVC to contribute to firm value creation, with many investments timed carefully. In addition, many of the investment opportunities available to PEVC are difficult to access through listed public equity markets.

Net investment returns over time by asset class

10-year and 20-year annualised returns net of fees, period ending Sep 2023; AUD terms



Notes: Cash returns from the Bloomberg AusBond Bank Bill Index, global bonds returns from the Bloomberg Global Aggregate Total Return Index (hedged), Australian listed equity returns from the S&P/ASX 300 Total Return Index, and global listed equity returns from the MSCI ACWI Net Total Return (unhedged). Fee assumptions for publicly traded assets from the YFYS benchmark. PEVC returns proxied with pooled horizon returns, net of fees, expenses, and carried interest, from Cambridge Associates.
Sources: Bloomberg; MSCI; S&P; Cambridge Associates; Australian Government (2023); JP Morgan (2020).

MySuper products which allocate more to PEVC also achieve 3x the fee efficiency, driving value for members

Superannuation funds are committed to delivering best possible risk-adjusted net returns, which requires attention to both the gross returns and the costs incurred to achieve them. Efficient fee utilisation ensures that investment fees translate into higher returns.

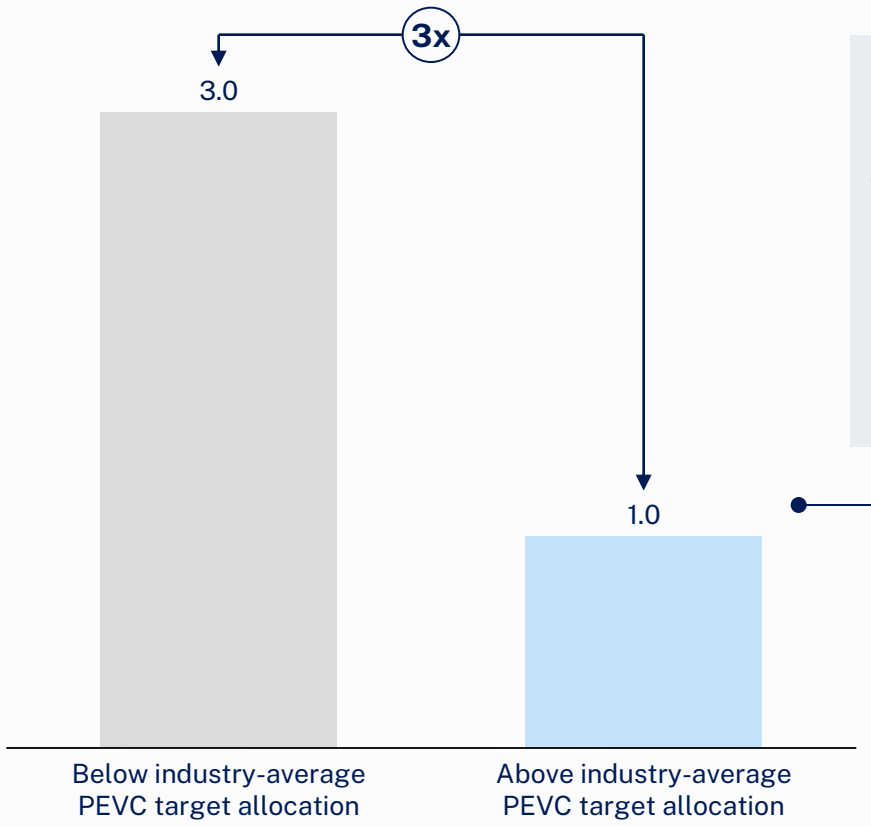
MySuper products[1] with higher PEVC targets deliver three times the value per dollar of fee compared to products with lower PEVC targets. Greater fee efficiency is achieved as these fees are effectively purchasing superior returns. It is important to consider fee efficiency, as evaluating investment fees in isolation does not accurately represent their true cost-effectiveness, as it overlooks the performance benefits they enable. For example, MySuper products that allocate more than the industry average of 4.4% to PEVC have a median investment fee of 0.70% per annum, which is higher than the 0.62% fee for products with below-average PEVC allocations.

A holistic measure of efficiency lies in the value these fees produce. The fee efficiency ratio — calculated by comparing annual investment fees against its added value[1] — demonstrates how much excess return the fund generates for each dollar of fee.

1 – Products with positive 'Long-term value added' of a product, calculated as the excess net-fees return of the 8-year annualised performance compared to APRA's Simple Reference Portfolio. While 8 years may not constitute the long term, it represents the extent of available APRA data for MySuper products.

Fees per unit of value created by MySuper products by industry-average allocations in PEVC

Median ratio of annual investment fee[1] to performance relative to APRA's Simple Reference Portfolio[2]; 2022



A lower fee investment ratio indicates greater value for fees. On average, for every dollar of fees charged, MySuper products with above-average PEVC allocations earn a dollar of additional value relative to APRA's Simple Reference Portfolio (SRP). Products with below-average allocation to PEVC earn just 33c excess relative to the SRP for every additional dollar of fees paid.

Notes: 1 – Fees include management fees, performance fees, and indirect costs related to investments (refer to APRA Prudential Standard SPS 530). 2 – Performance is defined as the excess return of the 8-year annualised performance compared to APRA's Simple Reference Portfolio, after investment fees. While 8 years may not constitute the long term, it represents the extent of available APRA data for MySuper products. For more information about the construction of the Simple Reference Portfolio, refer to APRA Heatmap Methodology (p. 9, 2022). Products with negative added value are excluded from this analysis, representing 47% of products with below-average PEVC target asset allocations and 23% of products with above-average PEVC target asset allocations.
Source: APRA Heatmap (2024); APRA (2024); Mandala analysis.

PEVC provides valuable diversification benefits, due to relatively low correlation with traditional asset classes

PEVC returns are not closely correlated with most traditional asset classes such as listed equity and bonds, making PEVC a valuable source of diversification in investment portfolios.

The average correlation of PEVC, when compared to cash, Australian bonds, global bonds, Australian listed equity and global listed equity is 0.08. PEVC is least correlated with cash and bonds and has a somewhat higher correlation with listed equities.
The low overall average correlation of PEVC is due to its illiquid nature, strategic value creation, gradual capital drawdowns, and infrequent valuations.

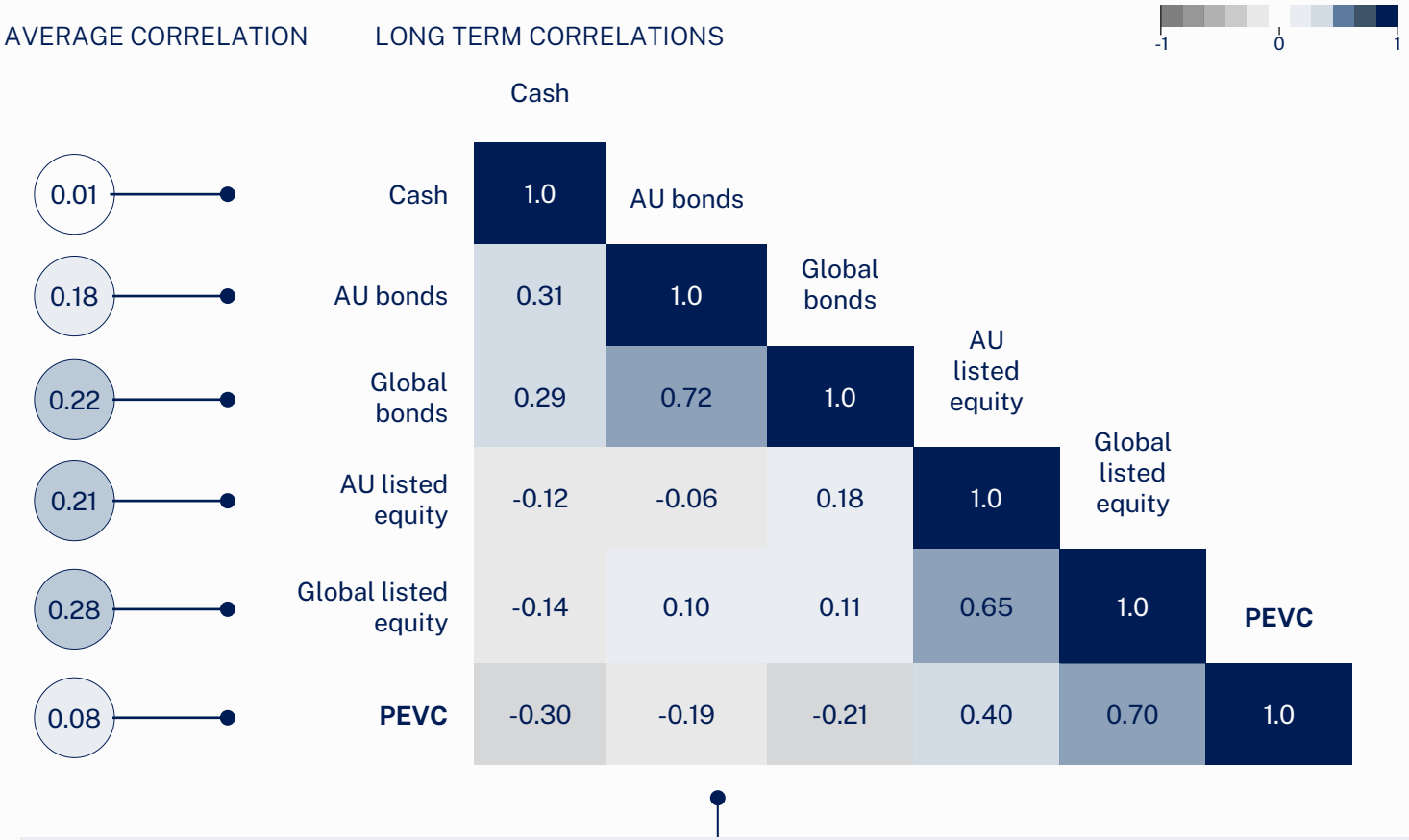
PEVC's investment profile can aid in portfolio diversification, leading to superior long-term returns. By spreading risk and balancing volatility with PEVC's stability, overall portfolio volatility is reduced. Including PEVC improves a portfolio's efficiency by optimising for the best possible return at any given risk level, thereby enhancing long-term investment outcomes.[1]

In line with superannuation funds' regulatory obligations to ensure strong investment governance and unlisted asset valuation prices, PEVC can be a useful means to enable diversification of risk.

1 – Challenger (2024).

PEVC's correlation with traditional asset classes

Long-term correlations; 2024



Correlation measures the relationship between returns of two investments, ranging from -1 to 1.
A high correlation means investments move together; low or no correlation indicates no co-movement; negative correlation implies opposite directions.

Notes: Global PEVC correlations.
Sources: JP Morgan (2024); Mandala analysis.

Increasing PEVC allocation to 20% would have resulted in greater returns and less risk exposure over the past 20 years

Superannuation funds can use PEVC as a lever to fine-tune their risk-return profile, enhancing the potential for outperformance and providing better outcomes for their members.

Superannuation funds must balance risk and return for their members. Traditional assets like bonds and listed equity are mainstays in these portfolios due to their liquidity and historical correlations. However, the addition of alternative investments such as PEVC can both enhance portfolio returns and also reduce portfolio risk.[1]

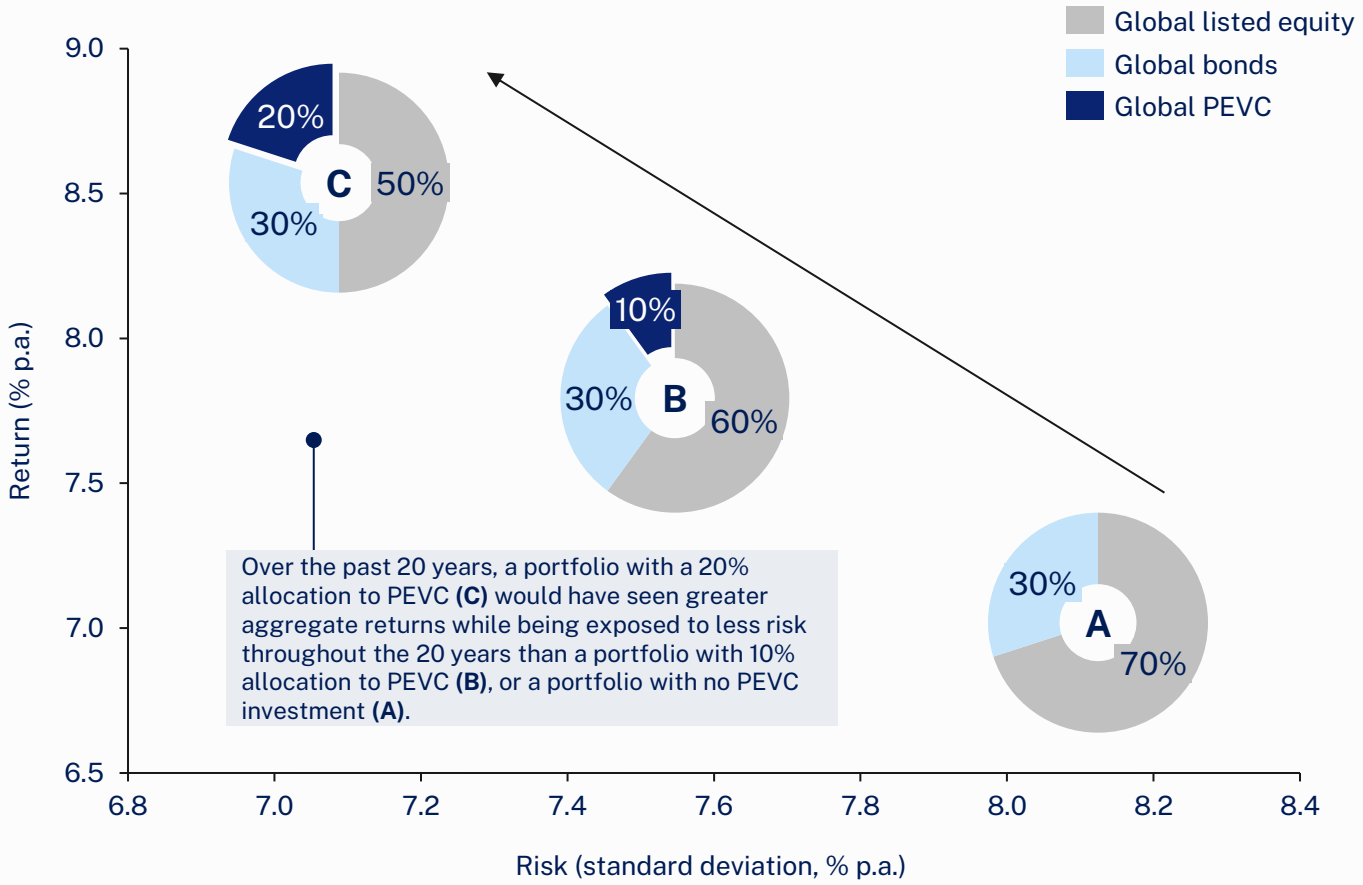
PEVC's imperfect correlation with both bonds and listed equities offers diversification benefits, potentially improving a superannuation fund's long-term return objectives, despite its higher return dispersion (volatility).[2]

In fund management, distinguishing between volatility and the potential to achieve targeted returns is crucial, especially when incorporating PEVC. Volatility reflects short-term portfolio fluctuations, while the focus on meeting long-term return targets is paramount for ensuring fund stability. Portfolio C illustrates that PEVC might boost the likelihood of achieving these goals. Effective management of volatility-related drawdowns is key to balancing the pursuit of higher returns with the need to protect the fund's long-term objectives.

1 – Challenger (2024). 2 – CFA Alternative investments (2021).

Historical risk and return of listed equity, bond and PEVC portfolios

Blended portfolio returns over 20 years to Sep 2023; AUD terms



Notes: This analysis assumes quarterly rebalancing to maintain the stated asset allocation (e.g., 60% bonds, 30% equities, 10% PEVC). For representation, bonds are indexed to the Bloomberg Global Aggregate Total Return Index (hedged), global listed equity to the MSCI ACWI Net Total Return (unhedged), and Global ex US PEVC to the Cambridge Associates Private Equity and Venture Capital Index. Source: Mandala analysis.

Superannuation funds can improve retirement outcomes for members through PEVC's patient capital approach and illiquidity premium

PEVC, known for its illiquidity premium, requires investors to lock in capital for long periods, providing higher returns.

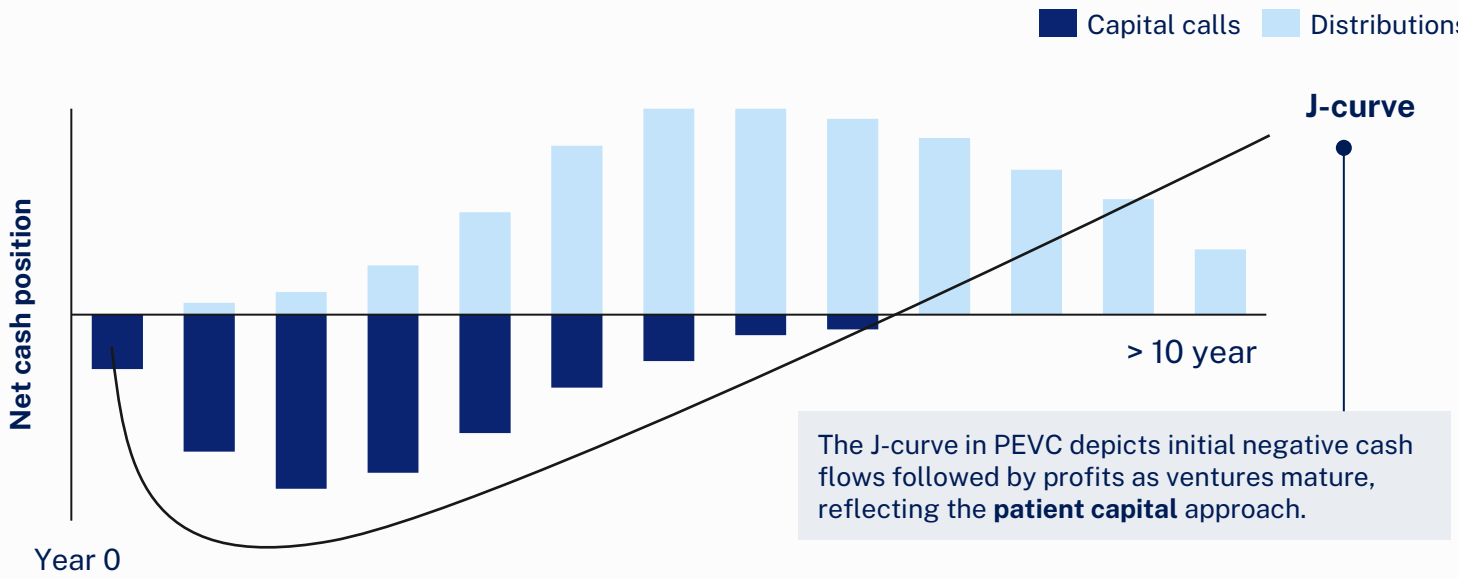
More than 90%[1] of APRA-regulated AUM operate on defined contribution (DC) basis, requiring member contributions to be readily available for withdrawals — exact asset-liability matching. Withdrawals can occur when a member switches funds, products, or reaches retirement. However, this requirement should not deter funds from tapping into the illiquidity premium, as liquidity risk — the mismatch of assets and liabilities — can be managed through consideration of member demographics and member net inflows.

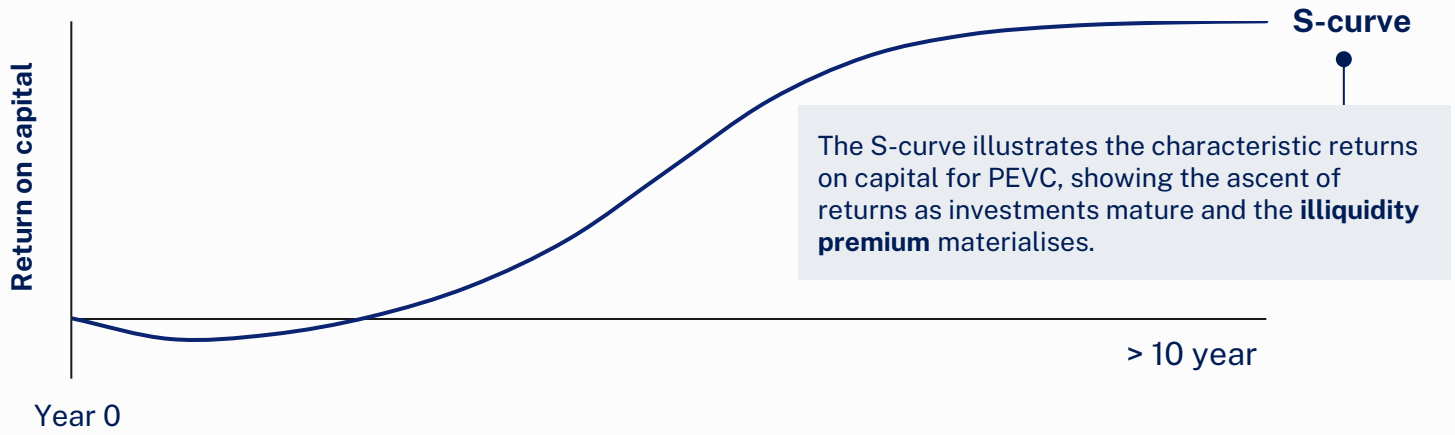
The J-curve lays out cash flow pattern for PEVC investments. It begins with negative cashflows reflective of investment outlays and operational expenses. The patient capital approach accepts this initial phase, anticipating a significant return on investment once the ventures progress past their developmental stages and begin to generate profit.[2]

The S-curve's[3] trajectory illustrates the characteristic returns on capital for PEVC, showing the ascent of returns as investments mature and the illiquidity premium materialises. This premium offers compensation for the reduced liquidity of early-stage investments and is progressively realised as the underlying assets expand and operational efficiency improves.

1 – Funds with more than six members, APRA (2024). 2– Ivashina (2019, Chapter 1). 3 – CFA (2024).

Illustrative example of cash position (J-curve) and return on capital (S-curve) in PEVC



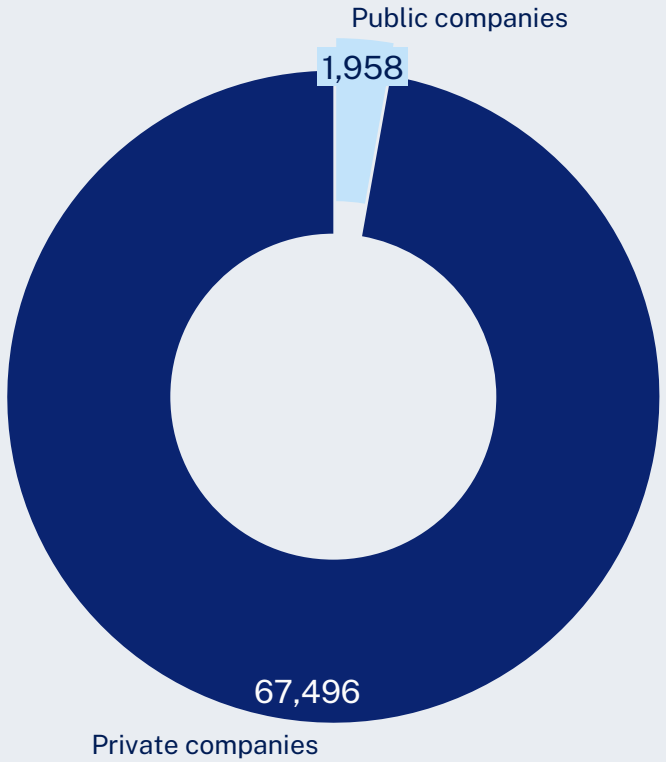


Sources: CFA (2024); Mandala analysis.

Australian PEVC provides superannuation funds access to over 67,000 companies...

Australian companies by type

Number of companies with more than 20 employees by type of listing; June 2023

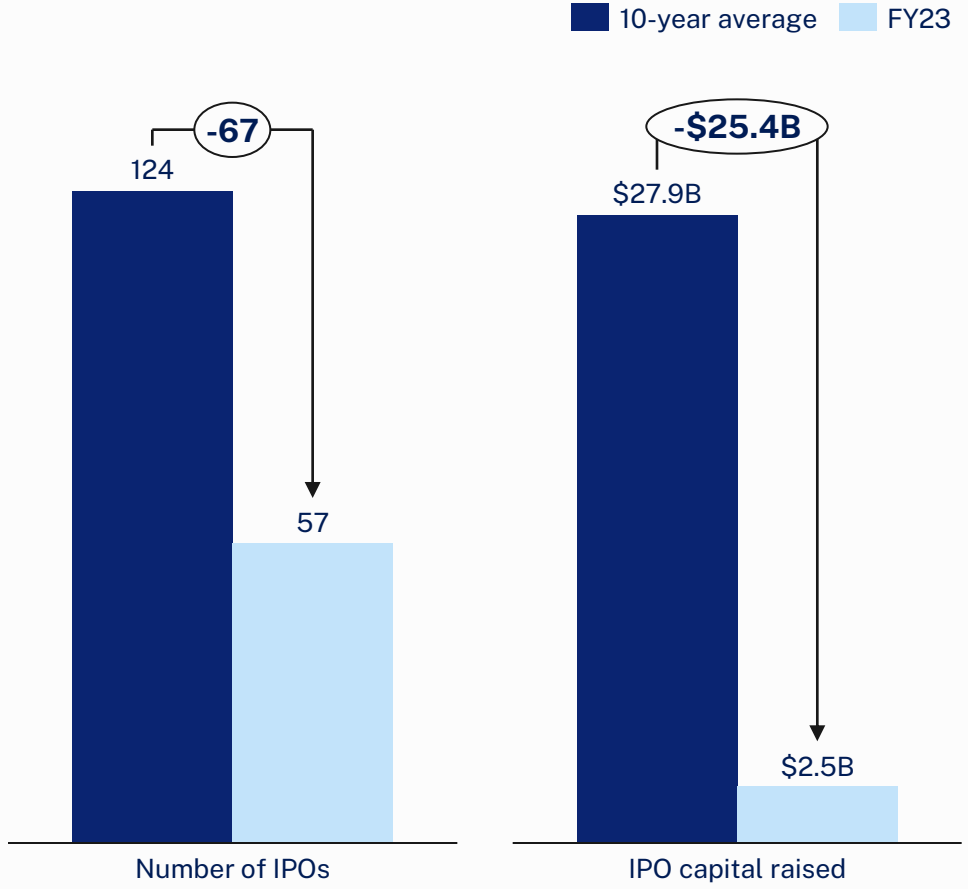


Notes: Public and private markets support each other and will both continue to play important roles, and public markets provide an important source of exit events for PEVC investments.
Source: ASX (2024); ABS (2024); Mandala analysis

...which is critical at a time when IPO activity is at a decade-low

Initial public offering (IPO) activity in the Australian stock market

Number of IPOs in the ASX; capital raised by IPOs; 10-year average vs FY23



Notes: IPO refers to Initial Public Offering.
Sources: ASX Annual Reports; Mandala analysis.

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4 Removing regulatory barriers to allocation to PEVC would allow superannuation funds to realise the benefits of PEVC investment

5 Appendix

To maximise returns for members, an enhanced allocation would see an additional $54b invested into PEVC by MySuper products

An enhanced allocation would see an increase of 5.4 percentage points to PEVC within the average MySuper product. In aggregate, this represents a $54 billion reallocation, based on the $1 trillion[1] valuation of all MySuper products.

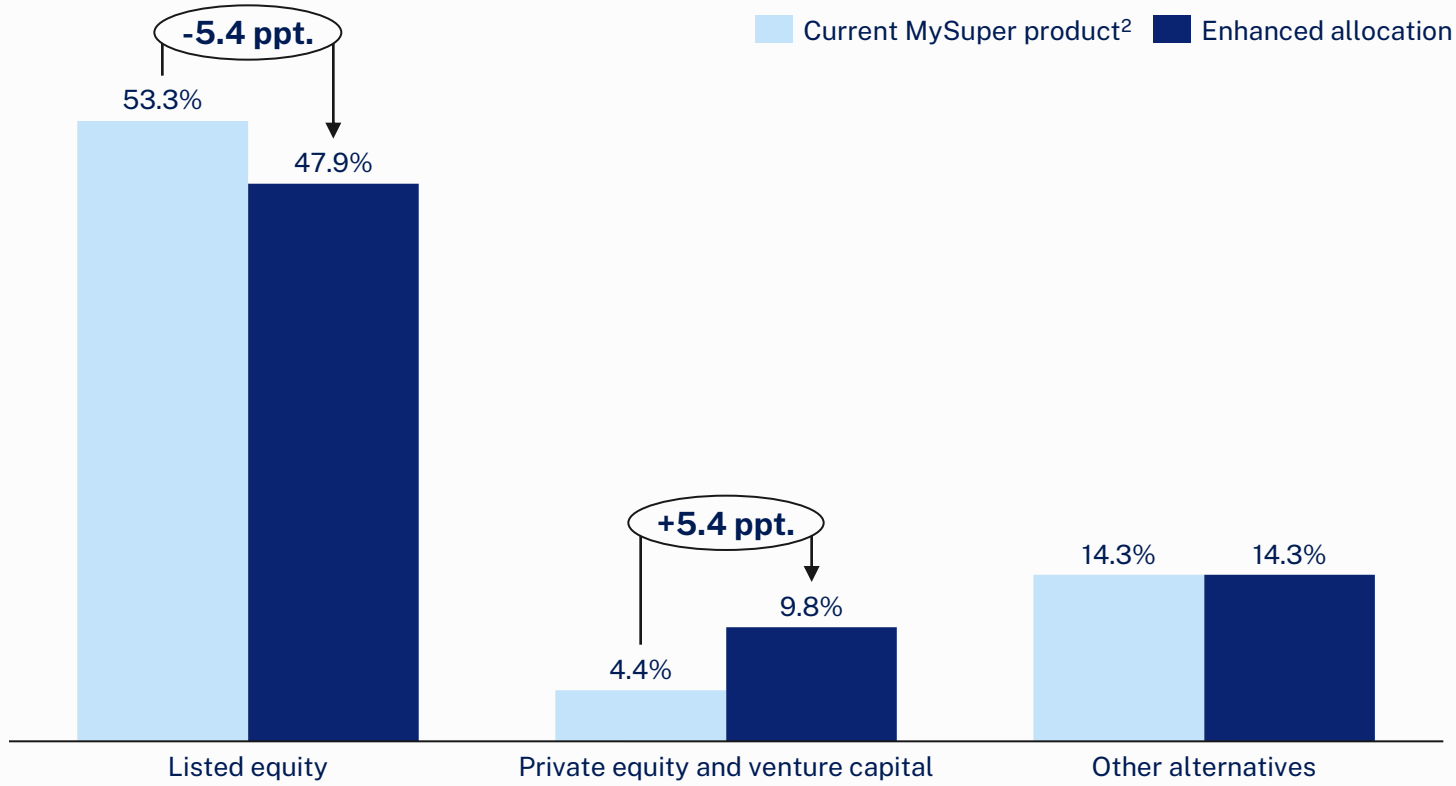
To model an enhanced allocation, the trade-off between PEVC and listed equity is examined, using a Mean-Variance Optimisation (MVO) framework. The MVO framework is utilised to identify the enhanced asset allocation by analysing all possible asset combinations to maximise returns while minimising risk. This method examines the effects of adjusting the target allocation between PEVC and listed equity, with all other assets held constant. It provides clarity on how changes in PEVC and listed equity investments impact the risk-return profile, without altering the product category. An increase in PEVC allocation, as indicated by the MVO framework, reduces risk and enhances returns, i.e., is a superior asset allocation.

Each superannuation fund must customise its asset allocation to maximise outcomes for members while managing risks. However, the existence of a superior asset allocation signals that increasing the PEVC allocation within MySuper products could more effectively align with member interests.

Notes. 1 – APRA Quarterly MySuper statistics (2024).

MySuper products' target allocation to growth assets, current vs enhanced[1]

MySuper's product target allocation to growth by asset class; Sep 23

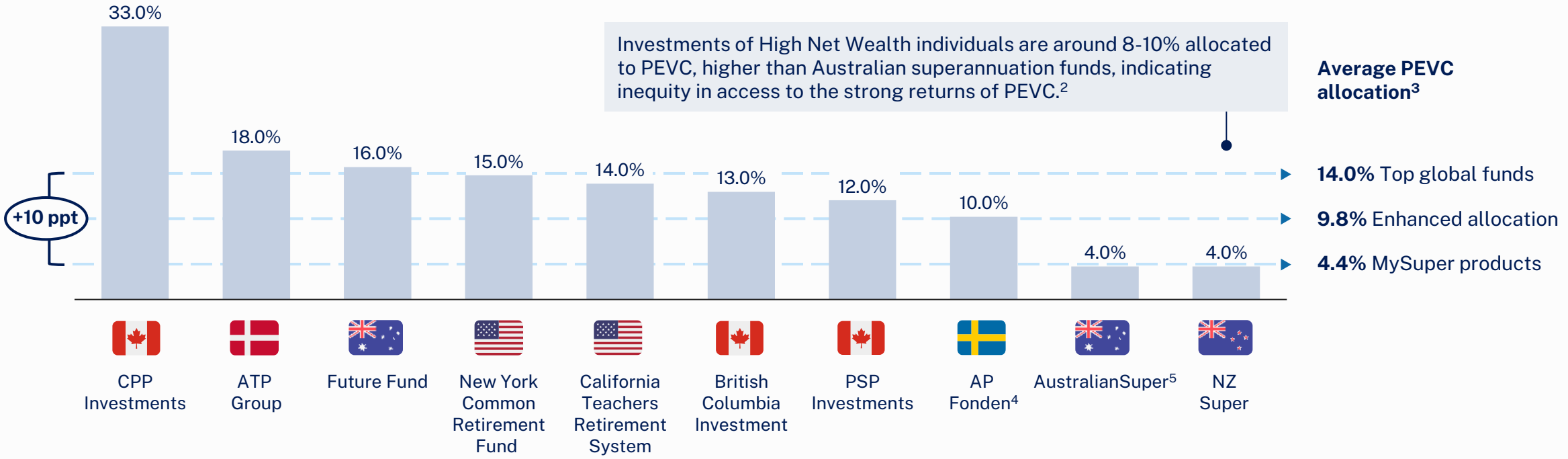


Notes: 1 – The enhanced allocation refers to the theoretical-MVO portfolio. The theoretical-MVO is an analytical tool used to demonstrate the potential impacts of asset allocation adjustments within a portfolio. Based on Modern Portfolio Theory, it employs mean-variance optimisation to determine the most efficient investment strategy. The theoretical-MVO portfolio is not applied to actual fund management but is used to illustrate potential outcomes based on prevailing investment environment. MVO modelling does not account for all factors which can impact asset allocation such as fund capabilities and investment fundamentals, competitive pressures relating to total and relative fees, and liquidity considerations. See appendix for more information. 2 – The strategic targets are derived from the average across all products as disclosed in the APRA quarterly MySuper statistics, weighted by the dollar size of each product.
Source: JP Morgan (2024); Mandala analysis.

The enhanced allocation would bring Australia's allocation closer to that of the best performing pension funds globally, which on average allocate 10 ppt more to PEVC than MySuper products

Investment in PEVC by the global top ten performing public pension funds and sovereign wealth funds[1]

Target allocation to PEVC as percentage of total assets; top ten performing funds; total fund's AUM in AUD; 2023



2nd	9th	5th	6th	7th	10th	4th	3rd	8th	1st
$643B	$151B	$206	$371B	$464B	$259B	$271B	$414B	$298B	$60B

Performance rank[6]

AUM total fund

Notes: 1 – The allocation data refers to each fund's asset policy allocation. For funds that do not adhere to a strategic target, their actual allocation is presented instead. 2 – Global evidence and anecdotal Australian evidence. 3 – The average allocation to PEVC is weighted by funds' assets under management. 4 – The performance of AP Fonden is represented by the weighted average returns of Sweden's six national pension funds. However, the target allocation specifically refers to Andra AP-fonden (AP2). 5 –The performance and asset allocation information for AustralianSuper pertains exclusively to the MySuper product, which represent more than 65% AUM. 6 – Performance is measured as the 10-year net annualised return (2013 – 2022).
Sources: Global SWF (2024); APRA (2024); BCG (2022); Oliver Wyman (2021); Knight Franck (2023); Individual funds' annual reports.

A higher, enhanced allocation to PEVC would boost retirement income for members by $20,300

Superannuation funds can improve retirement outcomes for members by increasing PEVC target allocations. Asset allocation plays a critical role in driving investment performance, accounting for over 90% of the variability of returns over time.[1] If superannuation funds were to increase their PEVC allocation by 5.4%, to the 'enhanced level', an illustrative 23-year-old member starting their career today with a starting salary of $68,400 and an average lifetime salary of $95,100 would accumulate an additional $20,300 by the retirement age of 67. This additional benefit is comparable to the impact of increasing the Superannuation Guarantee contribution from 12% to 12.5%.

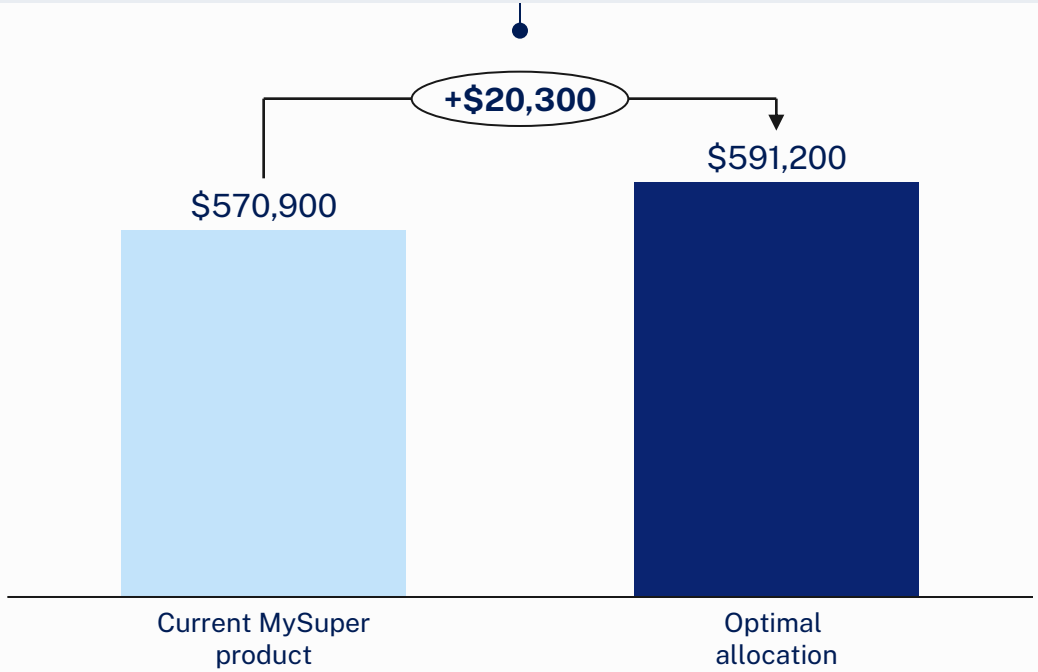
Improving retirement outcomes for Australians is the primary objective of superannuation funds, and is an increasingly vital goal due to Australia's ageing population and longer life expectancies.[2] 'Stapling' was a key reform introduced in the YFYS package in 2021. Stapling ensures that – unless someone actively chooses to change superannuation funds – they will remain with their incumbent fund through job changes. A 23-year-old starting their career today is expected to have a working life of 44 years[3] and will most likely remain invested in a default account for most, if not all, of that time. Superannuation funds can leverage the long-term focus and value creation offered by PEVC to increase members' retirement income.

1 – Brinson et. al. (1991). 2 – Intergenerational Report (2023, p. 6).
3 – Retirement Income Review (2020).

Increment in retirement income with additional PEVC allocation in MySuper product[1]

Projected superannuation balance at age 67; Nominal (AUD); 2024

The additional benefit to members is comparable to increasing the Superannuation Guarantee contribution from 12% to 12.5%



Notes: 1 – The cameo assumptions referenced are derived from the Retirement Income Review (RIR) (2020), considering the scenario of a middle-income earner with an annual salary of $68,400 and a continuous working life of 44 years. Adjusted for 2.5% CPI and 4.0% wage inflation annually, contributions are at 12% of earnings, and investment earnings are taxed at an effective rate of 7.0%, allowing for the effect of imputation credits and capital gains provisions. The assumed current MySuper product investment return is 7.7% per annum before fees and earnings tax, and enhanced allocation return is 7.9% per annum before fees. The projections also include fees: $74 per annum administration fees increasing with wage inflation; 0% contribution fees; 0.3% and 0.5% investment fees for current MySuper products and enhanced allocation, respectively. Source: Mandala analysis.

The additional investment into PEVC would support around 140,000 additional jobs in Australia

Increasing investment into PEVC is estimated to support an additional 140,000 full-time equivalent (FTE) jobs in Australia. PEVC funds provide capital, expertise, and management acumen to businesses – enabling businesses to grow and thrive, thus unlocking jobs.

In 2022, the Australian private capital sector supported around 600,000 full-time equivalent jobs, and contributed close to 3% of GDP. Increasing this to 4% by 2030 is expected to double the number of jobs supported.[1] Reaching an "enhanced allocation" by superannuation funds to PEVC is expected to contribute around one quarter of these additional jobs.

Australian PEVC firms predominantly invest locally, with the majority focusing on Australia and Australasia. Specifically, 90% of these firms direct their investments within this region, and 76% concentrate exclusively on Australian businesses. This local focus can boost Australian ideas, businesses, and communities.[2]

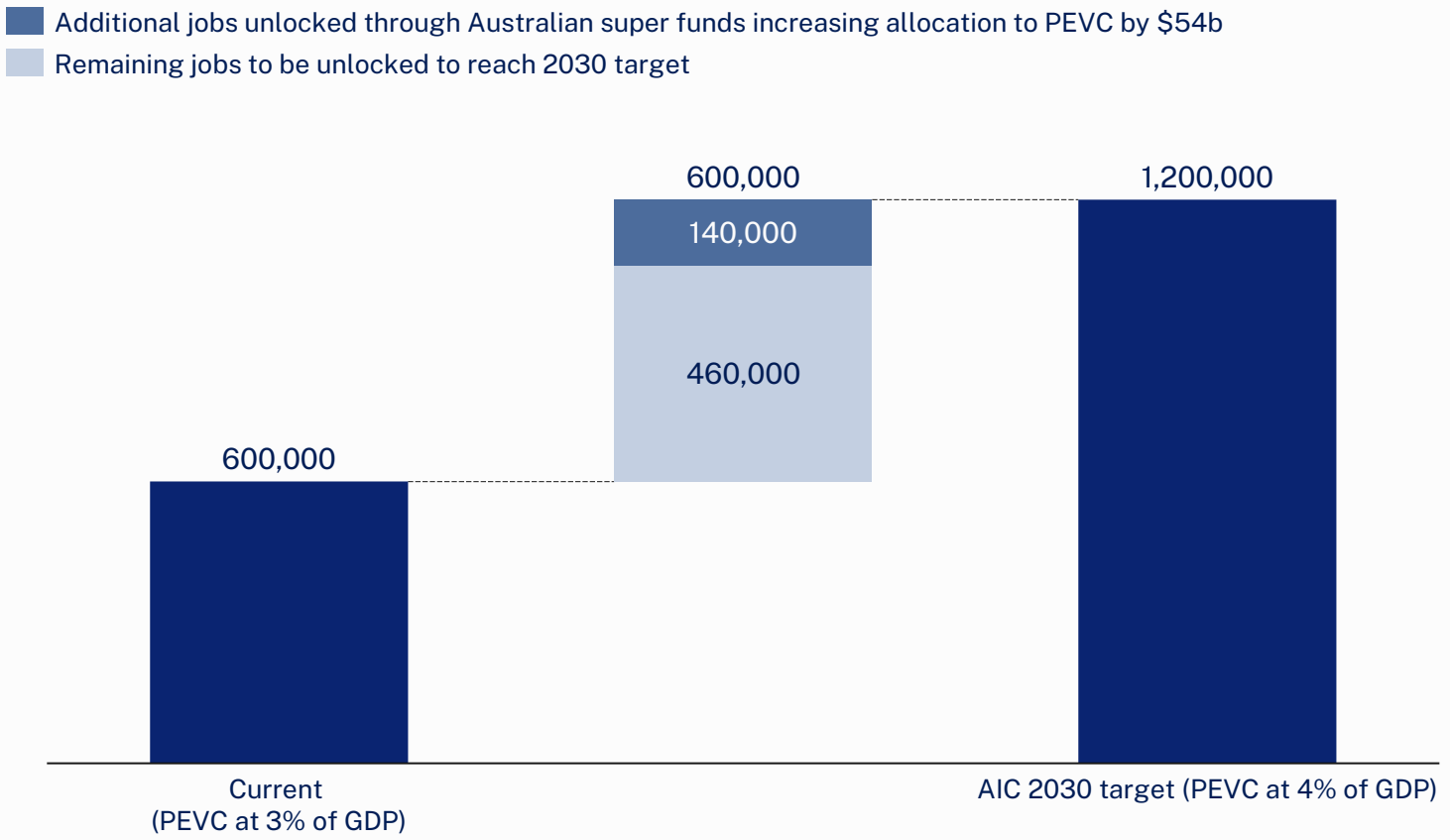
To reach the 2030 target, barriers to PEVC investment must be resolved, including regulation of superannuation, foreign investment and taxation.

The additional 140,000 FTE jobs has been calculated based on AIC's prior modelling, assuming a linear and constant relationship between additional investment and additional jobs supported.

1 – AIC (2024). 2 – Preqin (2024) provided by AIC.

Additional jobs supported in Australia with an increased super allocation to PEVC

Number of jobs supported by PEVC[1,2]



Notes: 1 – Additional jobs created through reaching an enhanced allocation is based on the share of the funding that will remain in Australia. The split between Australian and international PEVC funding has been estimated by analysing the holdings of the top ten largest superannuation funds (public offer) as of June 23. 2 – The estimation of jobs supported is based on the additional $70 billion investment potentially supporting 600,000 Australian jobs (direct and indirect), as reported in prior research by the AIC. The term 'jobs' refers to full-time equivalent positions.
Sources: AIC (2024); Mandala analysis.

Australian PEVC is critical to help Australia capture opportunities in priority areas

PEVC has attributes which make it particularly well-suited for emerging sectors and areas of the economy that require innovation and entrepreneurship. PEVC can invest early, rapidly, without collateral, taking on risk to provide long-term investment for companies that may not receive support from other funding mechanisms. The goals of PEVC are also aligned to future-focused areas, with management and funds that have speciality experience in innovation. As a result, energy, manufacturing, and healthcare are already areas which Australian PEVC has market share in.[1]

As part of an aim for a future-focused economy, key priority areas for the government are the energy transition, modern manufacturing, and the care sector. While these areas present significant opportunities for Australian productivity and quality jobs, innovation in areas such as new clean energy technologies, renewable integration, manufacturing technology developments, consumer-driven research and product commercialisation for care, and new kinds of care service delivery is needed.

PEVC can help Australia capture the opportunities these priority sectors offer. The strength of PEVC in supporting innovative companies makes it a key part of realising a future-focused economy.

1 – 2022 survey from AIC and EY.

Opportunity of PEVC for the Australian economy

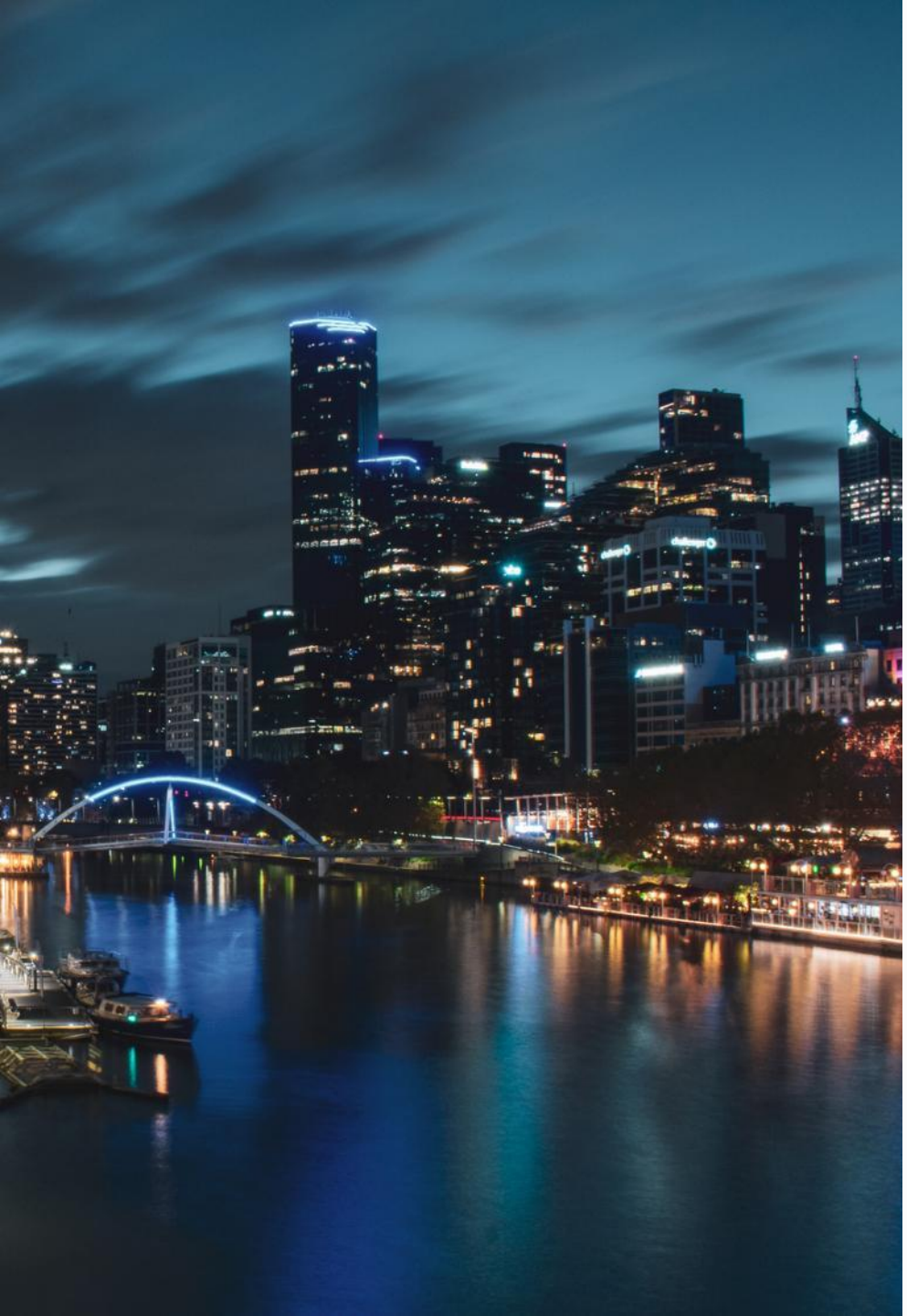
PEVC's unique approach of combining financial capital with strategic support can transform promising industries into mature, productive sectors. This can boost overall economic productivity and prosperity.[1]

PEVC has a track record of investing in productivity-enhancing initiatives and expansion of Australian businesses as well as the innovation/emerging industries

- **Early investor:** PEVC supports at earlier company stages, helping develop innovative ideas
- **Does not require collateral:** PEVC provides equity capital, enabling businesses to access necessary funding without utilising firm assets as collateral
- **Deploys capital rapidly:** PEVC can raise and direct capital quickly and deploy to targeted sectors
- **Takes on more risk:** PEVC is a long-term investor with the aim of high-returns over time, enabling it to take more risk and invest in innovative businesses in high-growth sectors
- **Innovation expertise:** PEVC funds have skills in supporting and managing innovative businesses, along with relevant industry-specific expertise
- **Focused on key growth sectors and priority areas:** Australian PEVC is already focused on energy, manufacturing, and healthcare[2]
- **Located in Australia:** Supports homegrown businesses to remain onshore

KEY GOVERNMENT PRIORITIES	GOVERNMENT POLICIES	PEVC FIRMS
Energy transition	• Commitment to Net Zero and emissions reduction • Investor Roundtable, with investment facilitation focus	3ME TECHNOLOGY
Modern manufacturing	• $15 billion National Reconstruction Fund (NRF) • The Future Made in Australia program	ADVANCED NAVIGATION
Care sector	• Existing and expected spending and reforms for Medicare, the NDIS, and aged care, e.g., 24/7 nursing	Estia Health

Notes: 1 – AIC (2024). 2 – 2022 survey from AIC and EY.
Sources: JP Morgan (2023); AIC (2017); AIC and EY (2022, 2024); Manufacturing Industry Skills Alliance (2024); Australian Government (n.d., 2022, 2023); Prime Minister of Australia (2024); CSIRO (2022); Mandala analysis.



1 Private equity and venture capital are key in supporting Australian superannuation funds to deliver the best outcomes for their members

2 Australian superannuation funds under-allocate to PEVC costing retirees up to $20,000 and up to 140k Australian jobs

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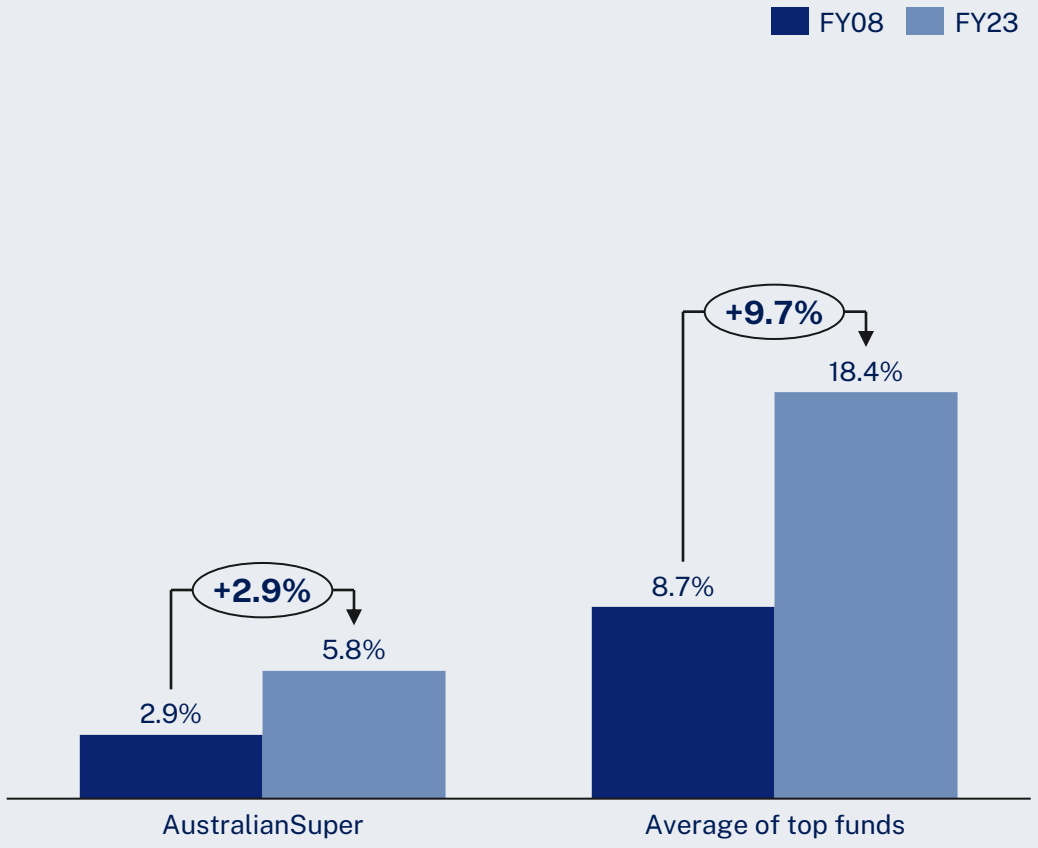
4 Removing regulatory barriers to allocation to PEVC would allow superannuation funds to realise the benefits of PEVC investment

5 Appendix

Australia's largest fund's allocation to PEVC has not increased in line with international trends...

Changes in allocation to PEVC, AustralianSuper vs world's largest pension funds

% of asset allocation of total fund's AUM; FY08 and FY23

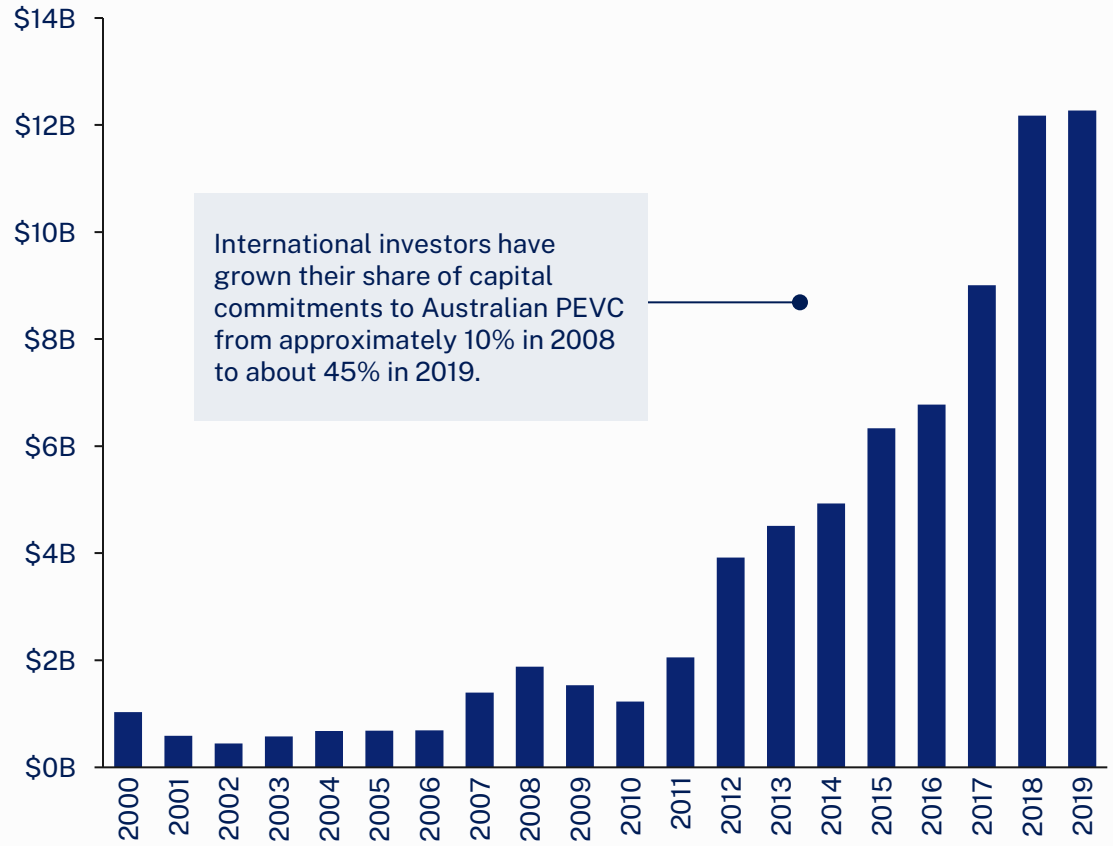


Notes: Top four largest non-sovereign pension funds as per Thinking Ahead Institute 300 ranking.
Source: Pension funds' websites; Thinking Ahead Institute (2024); Mandala analysis.

...despite it being an attractive opportunity, evidenced by the growth in international funding

International investment into Australian PEVC

Capital commitments by international investors, VC and late stage PE; 2000-2019



Notes: International investors include pension funds and other.
Sources: ABS (2024); Mandala analysis.

RG 97 and YFYS are two regulatory barriers frequently cited as contributing to Australian super funds' under-allocation to PEVC

Stakeholder feedback regarding barriers to PEVC investment

BARRIER	INSIGHTS
RG 97 – fees and costs disclosure	Australia is one of the most fee-focused jurisdictions in the world In a no RG 97 world, our unlisted Strategic Asset Allocation (SAA) would likely increase by 3-4%, with more PEVC in particular RG 97 has pushed the super industry to focus more on fees than net returns
YFYS measures – performance test	Benchmarking requirements are a disincentive to AU investment Your Future Your Super; the index is quite arbitrary Super funds' performance test period is not optimal for PEVC as it is a longer-term investment
Other barriers	Interviewees highlighted other barriers to PEVC investment, including: • illiquidity budgets, as funds need to be able to meet outflows with short notice, • the relatively smaller size of superannuation teams with PEVC expertise, • and the availability of PEVC opportunities.

Source: Mandala interviews; AIC interviews.

RG 97 incentivises prioritisation of fee reduction over net returns as it specifies fees are presented as a stand-alone metric

Fees are heavily emphasised due to the RG 97 requirements for fund statements and the APRA CPPP. Making fees highly prominent while not giving the full picture of long-term value added does not fully inform consumers and could bias decision making.

RG 97, which specifies how superannuation fees should be disclosed, has led to an unintended consequence of disincentivising PEVC investment. PEVC has both higher investment fees and higher returns than many other asset classes due to active management. However, RG 97 requires fees to be presented separately from returns, with higher fees misrepresented as a negative outcome for superannuation members without additional context. As a result, funds have a strong focus on fee reduction regardless of the value driven by fees, lowering PEVC investment.

While the exact impact of RG 97 is difficult to quantify due to data availability, it is reasonable to assume that RG 97 is contributing to the under allocation towards PEVC due to the distortionary impacts on investment decisions. Anecdotal evidence from superannuation funds indicates RG 97 has had a fundamental impact on fund behaviour, leading to some funds' allocations being geared towards fee minimisation rather than net returns.

Impacts of RG 97 and the APRA CPPP on the presentation of fees

RG 97's impact on statements[1]

- RG 97 requires that fees are simplified and highly visible within Product Disclosure Statements (PDSs) and periodic statements.
- Fees are presented separately from net returns, even though investment fees are implicit in net returns. PEVC has higher net returns after fees.
- Investment and administration fees have equal prominence, despite investment fees driving returns while administration fees have no bearing on returns.

APRA CPPP[1]

- The APRA Comprehensive Product Performance Package (CPPP) displays fund performance across various metrics including returns and fees.
- Fee and cost metrics are not presented with adequate context of net returns.
- Total fees, which includes investment fees, are given equal prominence as administration fees.
- Due to the presentation of total fees, users of the CPPP may assume comparing funds on total fees gives an indication of cost, not realising that investment fees are critical to driving returns and should provide a net benefit to the member.

! Consumer decision making is impacted due to overly prominent fees presented without the context of returns, biasing decision making. Consumers access PDS documents, along with media reports most likely based on the APRA CPPP.
Fund decision making and allocations are impacted by the excessive focus on fee reduction over net returns, particularly due to industry and media attention driven by the CPPP.

Notes: 1 – The testing and performance framework of the superannuation industry is included in the appendix. Sources: ASIC (2020); APRA (n.d.); Mandala analysis.

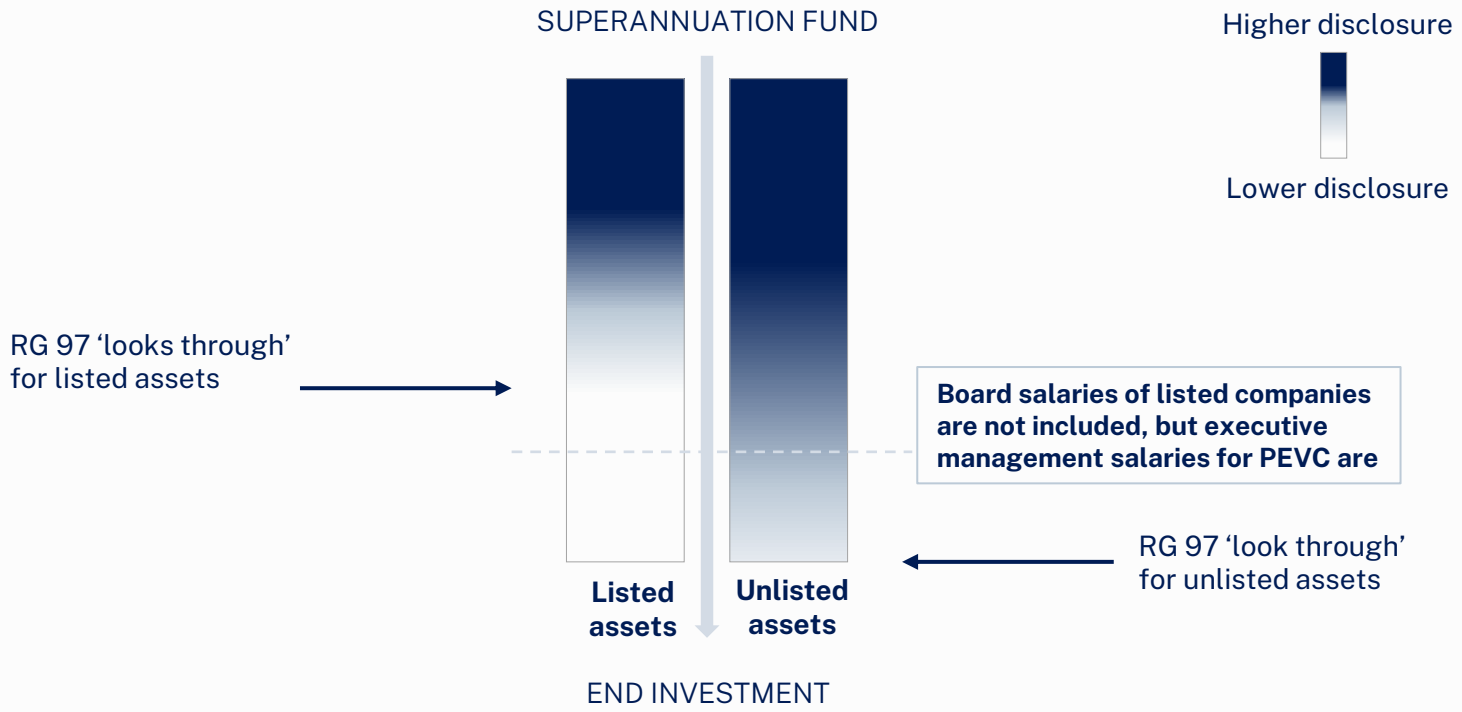
RG 97 creates an unlevel playing field, treating listed asset classes more favourably than unlisted, distorting investment behaviour

RG 97 fee disclosure standards specify the level of detail that superannuation funds must provide about the fees and costs in their underlying investments. However, there are significant discrepancies across asset types.

Theoretically the fee disclosures between superannuation funds should be comparable, but in reality the level of disclosure depends on the asset classes invested in. The depth of disclosure required depends on whether products are held by a fund or platform, with platforms having lower disclosure requirements. The way investments are made also impacts disclosure, with direct investments generally having higher disclosure requirements than indirect ones due to the asset test and PDS test in RG 97.

Unlisted assets often have higher disclosure requirements than listed assets because they tend to be held more directly. The higher disclosure requirements increase the reported fees due to a deeper "look through". As a result, superannuation funds that invest in more unlisted assets may report greater fees, which can distort decision making towards listed assets. For example, boards of listed companies have similar roles to the executive management of PEVC in unlisted equity. Despite these similarities, board salaries are not included in RG 97 disclosures, but active management costs for PEVC are included.

"Look through" of fee disclosure requirements under RG 97 (illustrative)



! Fund decision making and allocations are impacted by the greater extent of the 'look through' from RG 97 for unlisted assets compared to listed assets, meaning higher fees will need to be disclosed for unlisted assets regardless of the actual underlying costs. Instead, net returns create an equivalent comparison between asset classes.

Sources: ASIC (2020); Financial Services Council (2021); Industry Super (2017); Industry Super (2024); Mandala analysis.

The YFYS performance test disincentivises PEVC investment due to an inappropriate benchmark increasing risk of “failure”

In 2020, the Your Future, Your Super (YFYS) package was introduced to address issues such as superannuation fund underperformance and inadequate transparency. The new performance test penalises funds with a large tracking error, with results made public and failing funds prevented from taking new members. Large tracking errors occur if the asset returns of a portfolio differ from the returns of the specified benchmark.

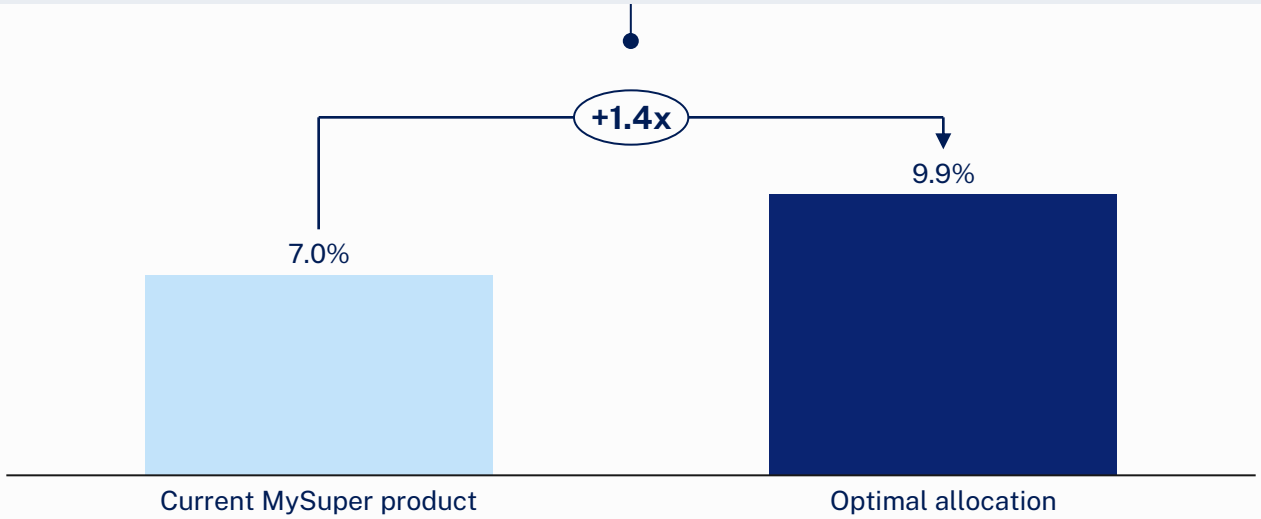
The YFYS reforms have placed PEVC at a disadvantage by benchmarking it against listed equity, a fundamentally different asset class. Under YFYS, PEVC will have a large tracking error because it is valued infrequently, meaning its returns will lag listed equity returns. In addition, PEVC and listed equity have different investment horizons, changing the distribution of returns. As a result of the performance test, superannuation funds are discouraged from making strategic investments into PEVC and instead may ‘hug’ the benchmark.

In practice, increasing the allocation of PEVC to the enhanced level makes a superannuation fund 1.4 times more likely to fail the performance test. On average, every additional percentage point allocation to PEVC increases the risk of failing the test by 0.5 percentage points.

Probability of failing the YFYS performance test

Probability of performing below the YFYS threshold in any given year, MySuper product target allocation vs enhanced allocation with increased PEVC[1]

Increasing the allocation to PEVC leads to a **1.4 times greater likelihood of a superannuation fund failing the YFYS performance test**. Every additional percentage point allocation to PEVC increases the risk of failing the test by 0.5 percentage points on average. The test does not measure risk-adjusted returns, but instead measures the tracking of returns to an asset benchmark.



! Fund decision making and allocations are impacted through the incentive to ‘hug’ the benchmark, especially for funds close to failing the test and hence being closed. Funds are discouraged from allocating to assets such as PEVC which have an inappropriate benchmark.

Notes: 1 – The YFYS performance threshold is set at 0.5% below the YFYS benchmark. Calculations of the probability assume normal distribution and that the fund will not adjust its strategy throughout the year. Increased allocation to private equity and venture capital funded by reducing allocation to global listed equity. Refer to the appendix for more information about the enhanced allocation.
Sources: Treasury (2020); Mandala analysis.

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5 Appendix

Fixing the distortionary effects of RG 97 and YFYS would improve outcomes for members and grow the pool of capital available for Australian projects

Policy recommendations to improve member outcomes and grow the pool of capital for Australian projects

Review RG 97 and related superannuation transparency and fee disclosure arrangements to ensure there are no unintended consequences leading to a lack of competitive neutrality between public and private asset classes. Particular areas of focus could include:

RECOMMENDATION	DESCRIPTION	BENEFITS
1. Benchmark funds based on net returns to improve member outcomes	The current YFYS performance test should be replaced with a metric that focuses on net returns. There is an ongoing Treasury review into options which AIC has made submissions to. Of the options outlined by Treasury, AIC prefers options 2b (peer comparison of risk-adjusted returns) and 2c (risk-adjusted returns relative to SRP frontier).[1]	• Improves member outcomes by measuring performance based on net returns. • Improves decision making and encourages competition.
2. Include a 'return on fee' metric in key materials to improve transparency	RG 97 should be updated to require a 'return on fee' (RoF) metric to be published in PDSs and periodic statements. RoF should also be reported in the APRA CPPP under 'fees and costs', and in the ATO YourSuper comparison tool. The RoF would measure fee for alpha, comprised of industry-accepted metrics within the superannuation and pensions industry, would be calculated as investment fees divided by returns above the SRP benchmark.	• Decision making would be improved with metric measuring 'value for money' of fees. • Allocation is expected to increase towards higher return investments, improving member outcomes.
3. Prioritise net returns in online comparison tools	Replace reported 'total fees', which includes investment fees with the abovementioned RoF metric from the APRA CPPP concise metrics tab and the ATO YourSuper comparison tool. The ATO YourSuper comparison tool should also report on administration fees as a stand alone metric. Removing total fees while emphasising net returns would ensure the APRA CPPP concise metrics and ATO YourSuper comparison tool focus on the key overall measure of retirement outcomes.	• Emphasises net returns after fees, a more important metric for member outcomes. • Addresses the over-fixation on fee minimisation. Total fees would still be within APRA fees and costs metrics.
4. Provide clarifying information on investment fees	RG 97 should be updated to include a description of investment fees that acknowledges they are deducted from returns on investments, not underlying balances, so it is reflected in PDSs and periodic statements. Appropriate language could be: "*Unlike administration costs which are deducted from your balance, investment fees and costs are only deducted from the investment returns that your fund earns for you.*"	• Improves decision making by helping members understand the impact of investment fees. • Benefits retirement outcomes with a clearer link between returns and fees, emphasising net returns.

Notes: 1. See following page for more details.
Sources: ASIC (2020); Mandala analysis.

Treasury has proposed a range of options for YFYS, of which benchmarking funds based on net returns is the option most aligned with the YFYS test principles

Assessment of performance test options to foster an incentive-driven environment for PEVC investments

Benchmark funds based on net returns

Low ○ ● High

	OPTION PROPOSED BY TREASURY	BENCHMARK	ALIGNMENT WITH POLICY OBJECTIVES[1]	RATIONALE
Status quo	1. Current Test	YFYS benchmark based on product's SAA	◔	• Incentivises benchmark hugging • Only captures the implementation of an investment strategy without assessing the strategy's choice or accounting for risk
Alternative single metric	2a. Sharpe ratio	Margin relative to a benchmark	◕	• Simple calculation requiring limited data • Treats upside and downside volatility equally • Could lead funds to prefer less volatile, unlisted assets
	2b. Peer comparison of risk-adjusted returns	Margin relative to best line of fit determined by peer group	●	• Encourages competition, motivating improvements and innovation • Avoids any incentive for funds to 'hug' benchmarks • Would require agreed definition of growth and defensive assets
	2c. Risk-adjusted returns relative to SRP frontier	Margin relative to bond-equity frontier	●	• Offers a clear benchmark using simple asset classes (bonds and equities), making it easier to understand and apply • Additional complexity around concepts of volatility and the 'SRP frontier'
Multi-metric framework	3a. CPPP	0.5 per cent margin to all investment performance metrics	◔	• Increased complexity for both funds and members • Risk of correlation between metrics, which could dilute the effectiveness of the assessment
	3b. Targeted three-metric	Multi-metric framework	◔	• Difficulty in selecting the three most representative metrics for all funds • Risk of oversimplifying the performance assessment, potentially overlooking important nuances

Notes: Simple Reference Portfolio (SRP) frontier.
Sources: Treasury (2024); Mandala analysis.

A fee efficiency metric would provide consumers with a measure of value for money from investment fees

A fee efficiency metric would indicate the ‘value’ of investment fees, and would be an important metric for ease of understanding. Current metrics of the dollar amount of fees do not provide a sense of proportion between the fees and the returns which they achieve.

RG 97 should be updated to require a ‘return on fee’ metric be included in superannuation fee and cost disclosures. 'Return on fee' would be calculated as investment fees divided by returns above the Simple Reference Portfolio (SRP) benchmark. It should be included

- within the fees and costs table of PDSs or period statements,
- in the ‘fees and costs’ metrics of the APRA CPPP, and
- in the ATO YourSuper comparison tool.

A fee efficiency metric would support better decision making, as it provides consumers with key information regarding the benefits that come from active management and associated investment fees. As a result, it will help improve member outcomes.

Through directing attention towards the value driven by investment fees, retirement outcomes would be improved, with allocation decisions that prioritise risk-adjusted net returns.

A fee efficiency metric, ‘return on fee’

Existing

Investment fees and costs within PDS documents and periodic statements

Fees and costs metrics in the APRA CPPP

Proposed

‘Return on fee’ with investment fees divided by returns above SRP benchmark

Leads to key benefits

IMPROVES DECISION MAKING

Improves member decision making with the addition of a new key metric for the ‘value for money’ that members gain from investment fees.

BENEFITS MEMBER RETIREMENT OUTCOMES

Helps make members better off in retirement by directing focus towards net returns and improving overall superannuation allocation.

Sources: Mandala analysis.

Investment fees should be transparently reflected in comparison tools to highlight net returns

The CPPP concise metrics and the ATO YourSuper comparison tool currently include total fees. The strong visual emphasis on total fees – which include investment fees – encourages a focus on the minimisation of investment fees, rather than focusing on net returns.

Total fees should be removed from the CPPP concise metrics tab and the ATO YourSuper comparison tool. Removing total fees while emphasising net returns would ensure the CPPP concise metrics and ATO YourSuper comparison tool focus on the key overall measure of retirement outcomes.

Members would have transparent cost information. Administration fees would continue to be included as in the status quo, and total fees would be available in the CPPP expanded view metrics in addition to PDSs and periodic statements.

Properly reflecting the value derived from investment fees would help encourage members and superannuation funds to focus on net returns. Removing total fees would help resolve distortionary behaviour caused by RG 97, which leads to an over-focus on investment fee minimisation.

Emphasise net returns

Proposed removal — Include

	CPPP concise metrics	CPPP expanded view metrics	ATO YourSuper comparison tool	PDS documents
Administration fees	✓	✓	✓	✓
Total fees (incl. investment fees)	–	✓	–	✓
Net returns	✓	✓	✓	✓

Leads to key benefits

IMPROVES DECISION MAKING

Improves member decision making with the addition of a new key metric for the 'value for money' that members gain from investment fees.

BENEFITS MEMBER RETIREMENT OUTCOMES

De-prioritising investment fees, whilst continuing to have them available in the CPPP expanded view metrics, would help to resolve the distortionary and perverse focus on investment fee minimisation as a higher priority than net returns.

Sources: Mandala analysis.

Updated language should help consumers understand that investment 'fees' drive value and returns

The current disclosure statements do not provide enough clarity for members around the differences between investment fees and administration fees. Administration fees deducted from a members' account are a direct cost incurred regardless of performance, whereas investment fees are an approximation of the costs incurred in generating returns.

RG 97 should be updated to include a description of investment fees that acknowledges they are deducted from return. Currently, there is only a general statement at the start of the fees section which explains fees could be deducted in a variety of ways. Instead, fee disclosure tables in statements should include a clear and informative description of investment fees.

More accurately acknowledging the impact of investment fees would benefit member decision making and support retirement outcomes. Super members would be better equipped with the necessary information to make informed decisions. Providing the logical link between investment fees and returns would be a positive step towards prioritising net returns over fee minimisation.

Clarifying investment fee description language for PDSs and periodic statements, illustrative

Fees and costs: This section shows fees and other costs that you may be charged. These fees and other costs may be deducted from your money, from the returns on your investment or from the assets of the superannuation entity as a whole.

Type of fee or cost	Amount	How and when paid
…		
Investment fees and costs[1]		

Added

1. Unlike administration costs which are deducted from your balance, investment fees and costs are only deducted from the investment returns that your fund earns for you.

Leads to key benefits

IMPROVES DECISION MAKING

Including additional language about the impact of investment fees will help improve understanding of what investment fees are and the value they represent, enabling members to make more informed decisions.

BENEFITS MEMBER RETIREMENT OUTCOMES

Adding clear and informative language will help explain that investment fees are implicit in net returns – the most important metric from a member's perspective.

Sources: ASIC (2020); Mandala analysis.

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5 **Appendix**

1. Mean variance optimisation framework
2. Analysis of performance testing and fee disclosure regulations
3. Analysis of options of performance testing design as per Treasury YFYS consultation

This analysis focuses on MySuper products, the default accounts for many Australians, representing 42% of AUM and 64% of accounts

MySuper products represent 42% of the AUM regulated by APRA and represent 64% of member accounts.

The primary features of MySuper products include:

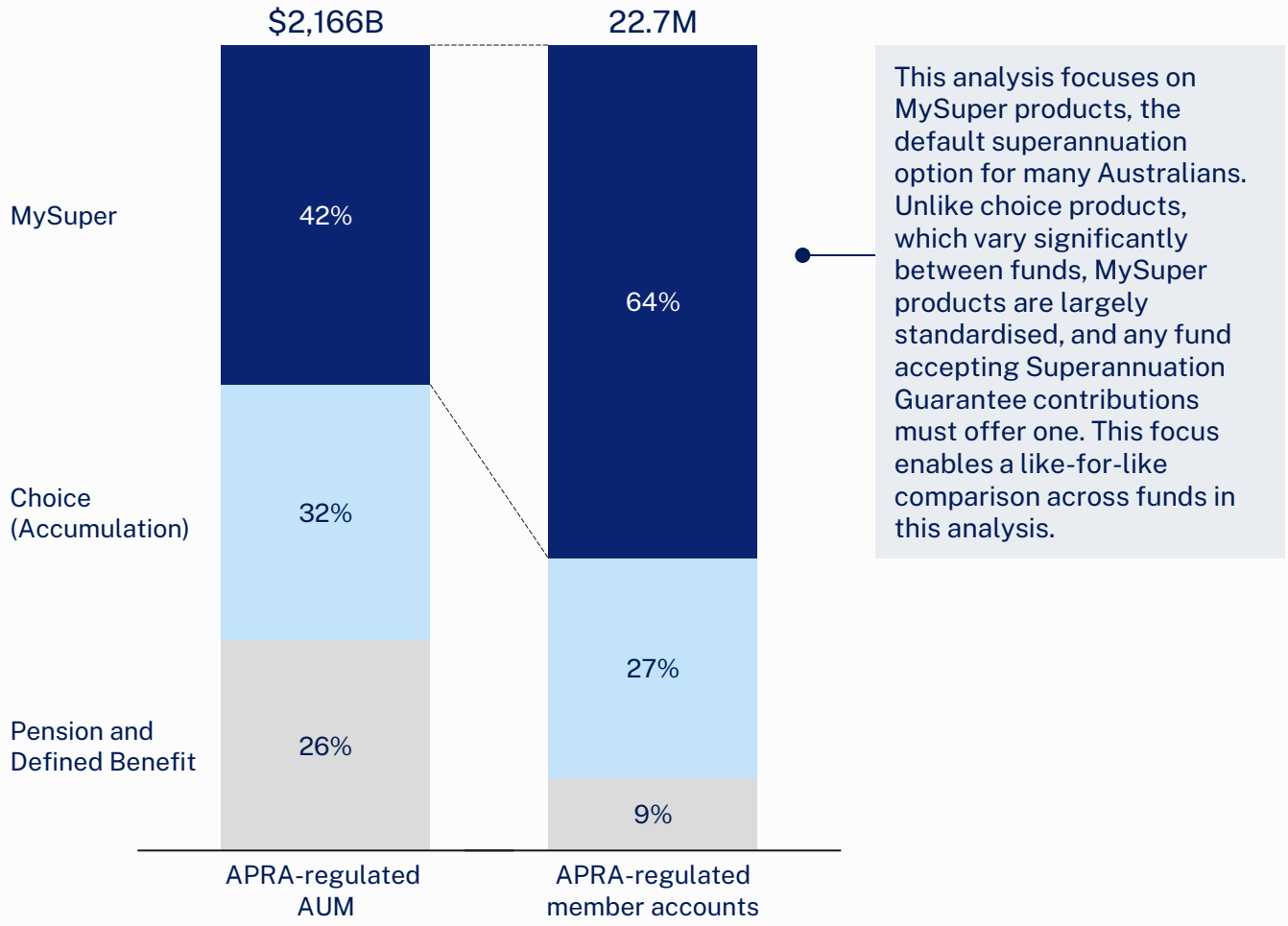
1. Standard investments in the best interests of members
2. Low fees
3. Product standardisation to ensure members have the information required to make decisions about their savings.

MySuper products are the default option for most Australians saving for retirement. In contrast, choice products require active member involvement, giving members control over their own asset allocation. Pension products, which have no default option, also necessitate active member participation.

Superannuation funds aim to serve the interests of all members, however investment governance focuses particularly on MySuper products. Typically the largest product, MySuper is foundational to a fund's investment decisions as it constantly adapts to the fund's membership base, thereby fully exercising the fund's value-creating decisions, such as the allocation to PEVC and other growth assets.

Superannuation system composition by product and phase, AUM and member accounts

APRA-regulated AUM[1] and accounts by product and phase; Sep 23



Notes: 1 – APRA-regulated AUM refers to assets held by APRA-regulated funds with more than six members.
Source: Quarterly Superannuation Industry Publication (2024); ARPA Annua bulletin (2024); Mandala analysis.

We used a Mean-Variance Optimiser to find the enhanced allocation of the MySuper product in absence of regulatory barriers

Optimal Asset Allocation

METHOD SUMMARY

- Utilised a Mean-Variance Optimiser to identify the enhanced asset allocation.
- Focused on risk and returns, accounting for taxes and investment fees.
- Sourced typical asset allocations from APRA MySuper quarterly statistics, categorising into:
  - Global listed equity
  - Australian listed equity
  - PEVC
  - Unlisted infrastructure
  - Unlisted property
  - Australian cash
  - Fixed interest (divided into 1/3 Australian and 2/3 Global fixed interest)
  - Other (treated as an allocation to Hedge Funds)
- For fixed interest allocation, adopted a split reflective of the Strategic Asset Allocation (SAA) disclosures by the largest open to public superannuation funds.
- Benchmark returns and asset class characteristics (correlations, volatility, return expectations) based on long-term assumptions.
- The investment horizon for the optimiser is set for the long term (20 years).
- All assets are considered to be hedged back to the Australian dollar, except for the global listed equity asset class, due to limited industry data on the hedging ratio.

KEY ASSUMPTIONS

- It is implicitly assumed that, on average, a MySuper product's actual asset allocation aligns with the SAA.
- Assumed passive investment across all asset classes, except for equities (listed and private), where active management is considered.
- For private equity and venture capital, the tracking error reflects long-term return observations of the Cambridge Associates benchmark relative to the MSCI ACWI.
- Investment fee assumptions for private equity and venture capital include 2% management fees and a 20% share of excess returns.
- Active management returns in equities follow an information ratio of 0.5, indicating the excess returns generated.
- The optimiser assumes normal distribution of returns and uses the correlation matrix to derive the covariance matrix for calculations.
- Excess returns from active management are specifically considered for equities, implying an expectation of added value through selection and timing.
- The 'other' asset class is treated as an allocation to Hedge Funds, reflecting alpha generation strategies with uncorrelated returns.
- Foreign currency exposure for the total assets is assumed to be 20%, in line with AustralianSuper's actual disclosure as of December 2023, for the global listed equity asset class.
- The tax on benchmark returns is assumed to be 15%.

Holding the growth-defensive split constant, we can model the enhanced allocation to PEVC for MySuper products

MySuper products represent 42% of the AUM regulated by APRA and, on average, target a 72/28 growth-defensive split. Growth assets include PE, listed equities, and certain segments of infrastructure and property asset classes. Defensive assets comprise bonds, cash, and specific segments of infrastructure and property asset classes, with these categorisations guided by APRA.[1]

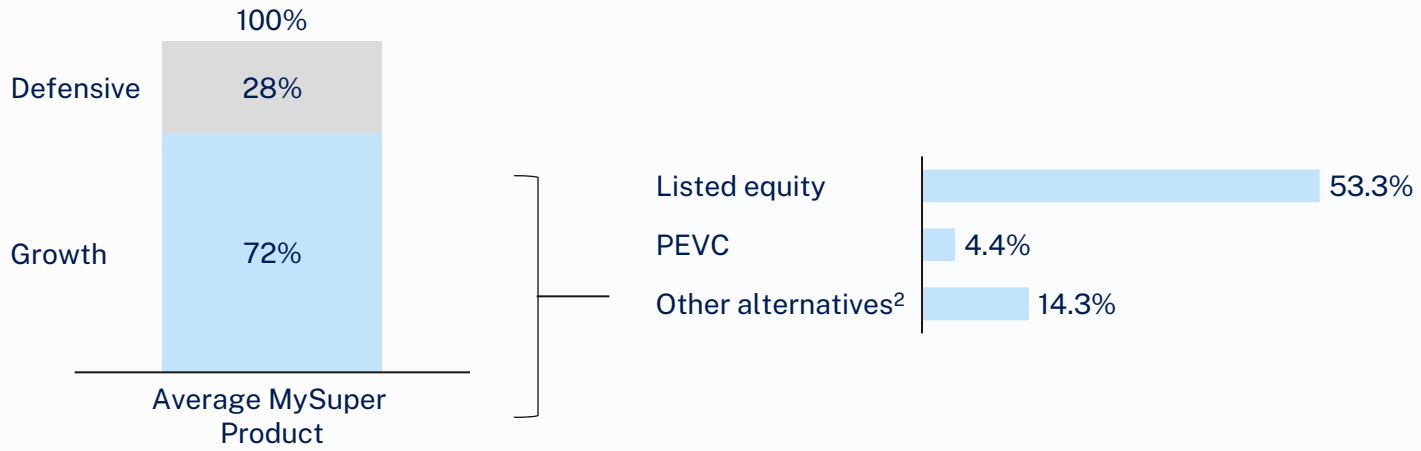
Superannuation funds engage in a rigorous asset allocation optimisation process to balance competing objectives over an extended investment horizon — typically 20 to 30 years. Investment objectives include absolute returns, risk management and fee minimisation.

To model an enhanced asset allocation, we have focused on the trade-off between PEVC and listed equity. By maintaining all other asset allocations constant, we can assess how changes between these two assets impact the product's risk and return profile, without affecting the product category. Our chosen approach is the Mean-Variance Optimisation (MVO) framework.

1 – APRA Heatmap Methodology (p. 9, 2022)

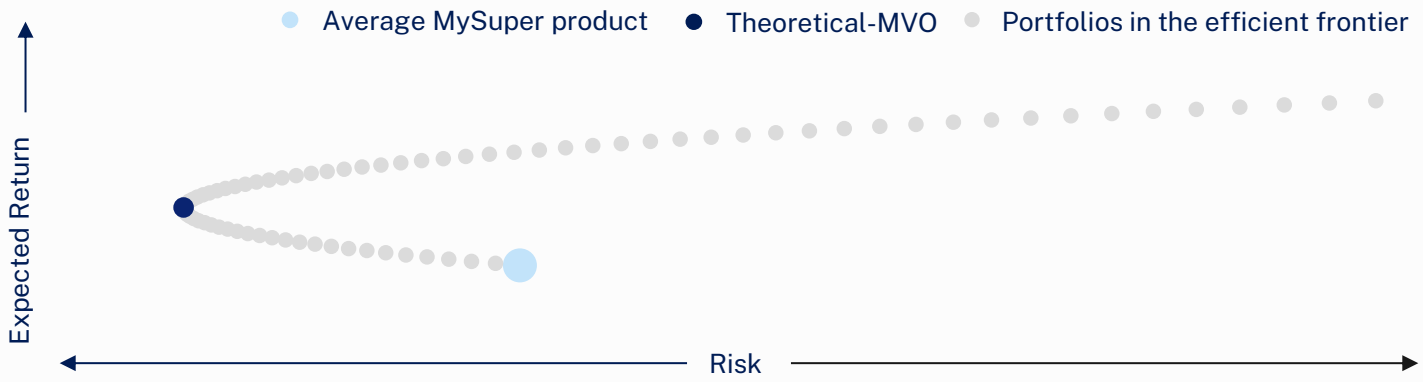
MySuper products' growth-defensive split and target allocation of growth assets[1]

MySuper products' strategic growth-split; growth target composition by asset class; Sep 23



MySuper product's efficient frontier

MySuper product's investment portfolio by risk and return outcomes; 2024



Notes: 1 – The strategic targets are derived from the average average across all products as disclosed in the APRA quarterly MySuper statistics, weighted by the dollar size of each product. 2 – Other alternatives include segments of unlisted infrastructure, unlisted property and other non-traditional asset classes such as commodities, hedge funds, etc. Source: APRA Quarterly MySuper Statistics (2024); ARPA Annua bulletin (2024); Mandala analysis.

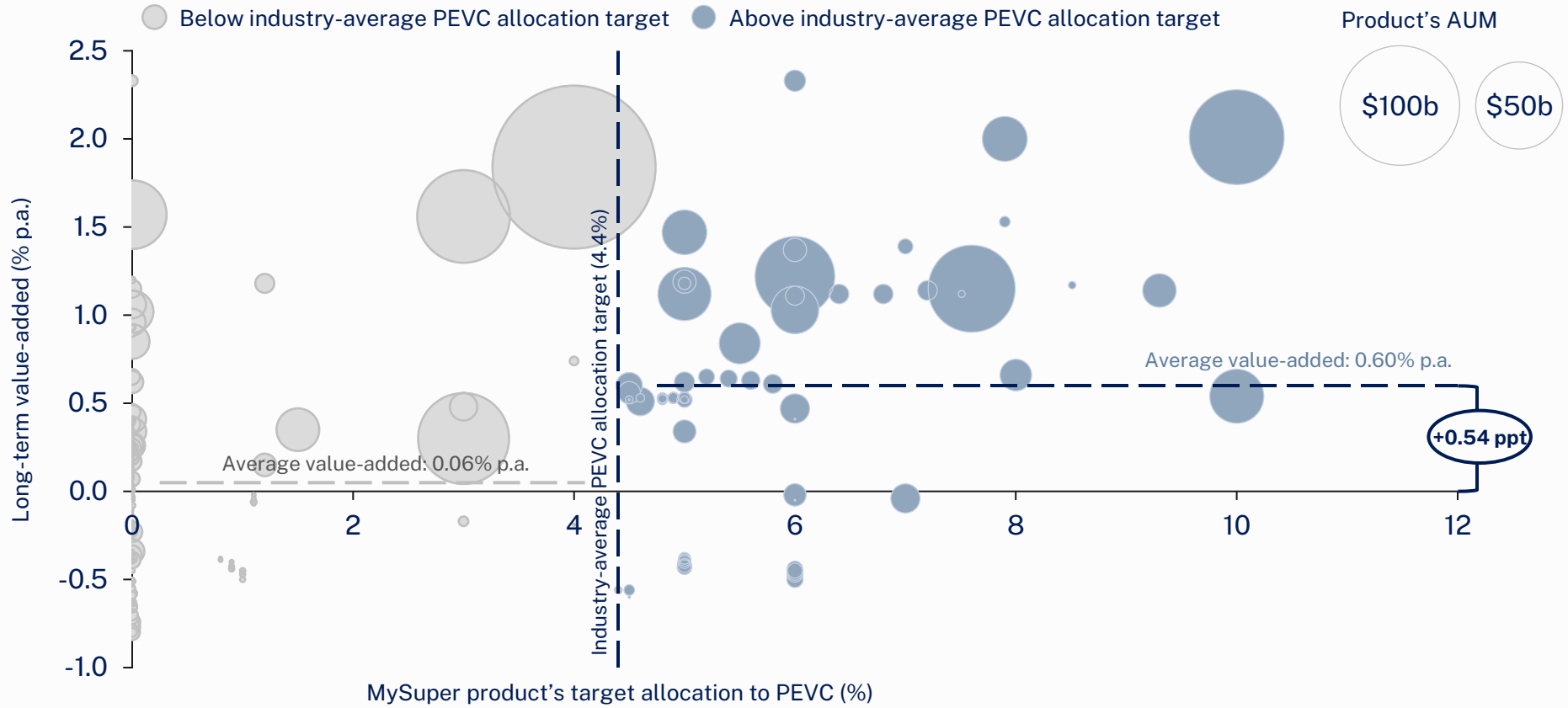
MySuper products with higher PEVC allocations create on average 0.54 percentage points more value than those with below-average PEVC allocations

MySuper products' value-added vs target allocation to PEVC

Performance relative to Simple Reference Portfolio of products, Jun 22; target allocation to PEVC, Sep 23

The chart shows the link between MySuper products' target allocation to PEVC and the value they have created for members. Products are mapped by their PEVC allocation on the x-axis, with the y-axis indicating the long-term value-added.[1]

The chart illustrates the positive relationship between higher PEVC allocations and better performance outcomes. Specifically, products which allocate more towards PEVC create on average 0.54 additional percentage points of value compared to those with below-average PEVC allocations.



Notes: 1 – The chart displays MySuper products from APRA-regulated superannuation funds with more than six members and at least 8 years offering. It displays lifecycle stages individually and excludes three products with PEVC allocations above 12%. One outlier with PEVC allocation greater than 40% is excluded from the average long-term value added. Long-term value added is calculated as the excess return of the 8-year annualised performance compared to APRA's Simple Reference Portfolio, after investment fees. While 8 years may not constitute the long term, it represents the extent of available APRA data for MySuper products.
Sources: APRA Heatmap (2024); APRA (2024); Mandala analysis.

Australia has more prescriptive performance testing and fee disclosure regulations than other countries with high-performing pension funds

International pension fund performance and fee regulations

Regulations of select peer countries with the top ten performing pension funds

Yes No

	Performance disclosure			Fee disclosure		
	STANDARDISED	PRESCRIBED BENCHMARK	NOTES	MANDATORY	STANDARDISED	NOTES
	Y	Y	Unlike many other peer countries, Australia has standardised performance disclosures with prescribed YFYS benchmarks for each asset class.	Y	Y	Australia is unusual compared to peer countries with standardised fee disclosures in product statements through RG 97, alongside the online APRA CPPP which compares fees.
	Y		While Canadian funds must disclose their performance and need to use benchmarks, they have choice over the benchmarks that best reflect their composition.	Y		Fee disclosure by Canadian funds is mandatory and fee presentation is somewhat standardised, although it varies by province.
	Y		Performance disclosure for Danish funds is required, although it is not benchmarked. Another key focus of regulation is risk minimisation and disclosure, which can impact allocation.	Y		Danish funds must disclose total fees at the fund and member level in an annual report, but net returns or implicit investment fees for alternative assets can be shown alongside total fees.
	Y		Swedish funds must disclose performance, such as through the 'orange envelope' and an online tool. The widespread use of the default fund means comparison between funds may not be commonly considered.	Y		Fees are disclosed for Swedish funds without a standard fund document. Fees are also limited through maximum asset fees for the state pension and pre-vetting of premium pension funds by a state agency.[1]
			US fund performance is not required to be disclosed in a standardised way. Funds have flexibility over benchmarks, which critics argue can lead to biased selection of favourable benchmarks.			Some fees for US funds are disclosed, but disclosure of performance fees for underlying funds is not required. Due to poor consumer awareness of fees, presentation requirements are under review.[2]

Notes: 1 – The Swedish Fund Selection Agency. 2 – Under review by the Department of Labor. Sources: Canadian Government Office of the Superintendent of Financial Institutions (2016); Canada Pension Plan (2023); Denmark Executive Order (2019); DFSA (2018); Ius Laboris (2019); P+ (n.d.); ATP Group (2023); Global Pension Transparency Benchmark (2022); Swedish Pensions Authority (2023); Böhnke et al. (2019); Elinder et al. (2020); minPension (n.d.); Pew (2023); United States Government Accountability Office (2021); Mercer (2023); SEC (2023); United States Department of Labor (2023); ASIC McShane Review (2018); Mandala analysis.

Treasury has proposed a range of alternative approaches to benchmarking

Annual superannuation performance test – design options

	OPTION	BENCHMARK	BENCHMARK DESCRIPTION
Status quo	1. Current Test	YFYS benchmark based on product's SAA	• The YFYS benchmark is a portfolio of indices based on the product's reported SAA. The benchmark for the PEVC asset class is a passive listed equity benchmark with annual investment fees between 5 and 16 basis points. • Compares a product's NIR performance and recent administration fees to a benchmark portfolio of indices based on the product's SAA, minus median administration fees of relevant peers. A product fails if its performance measure is lower than 50 basis points below the benchmark.
Alternative single metric	2a. Sharpe ratio	Margin relative to a benchmark	• Assesses the effectiveness of a fund in delivering risk-adjusted NIR above the risk-free rate. It involves the long-term NIR performance less the risk-free rate, divided by the volatility of investment. • Specific thresholds for passing or failing are not detailed, but the benchmark for performance could be a prescribed number or peer comparison. It will also require adjustment for administration fees.
	2b. Peer comparison of risk-adjusted returns	Margin relative to best line of fit determined by peer group	• Measures a product's long-term performance (net of administration fees) against its exposure to growth assets as a proxy for risk. The performance is compared to a linear trendline based on the relevant product cohort. • Products falling below a specified threshold from the peer group trendline fail the test.
	2c. Risk-adjusted returns relative to SRP frontier	Margin relative to bond-equity frontier	• Evaluates a product's long-term performance (net of administration fees) relative to volatility and compares it against the risk-adjusted returns of a simple reference portfolio (SRP) of bonds and equities for all levels of risk (volatility). • Products that do not exceed the risk-adjusted performance of the SRP at a similar level of risk fail the test.
	3a. CPPP	0.5 per cent margin to all investment performance metrics	• APRA CPPP's metrics assess NIR performance, fees, and sustainability of member outcomes. • The performance test, utilising APRA CPPP metrics, will assess fund strategy implementation, investment performance compared to peers, and member costs through SAA, SRP evaluations, NIR metrics, and fee analysis. • Funds need to meet or exceed thresholds across these metrics, with specifics on passing all or a majority to be determined.

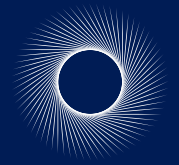
Notes: 'SAA' refers to a product's strategic asset allocation as reported by superannuation funds to APRA. 'NIR' refers to net of investment fees returns. Sources: Treasury (2024); Mandala analysis.

Alignment of reform options with policy objectives YFYS

Alignment with YFYS principles

	IMPROVES OUTCOMES FOR MEMBERS	EFFECTIVE & EFFICIENT	APPLICABLE & TRANSPARENT	ENDURING	OVERALL ALIGNMENT WITH POLICY OBJECTIVES
1. Current Test	◔	◔	◑	◔	◔
2a. Sharpe ratio	◕	●	●	●	◕
2b. Peer comparison of risk-adjusted returns	●	●	●	●	●
2c. Risk-adjusted returns relative to SRP frontier	●	●	●	●	●
3a. CPPP	◔	◔	◑	◔	◔
3b. Targeted three-metric	◔	◔	◑	◔	◔

Sources: Treasury (2024); Mandala analysis.



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