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| Private and Confidential |
| 23 December 2020 |
| TreasuryLangton CrescentParkes ACT 2600By email: superannuation@treasury.gov.au |

Dear Sir/Madam

Submission: Your Future, Your Super package

We are pleased to make this submission on the exposure draft legislation and explanatory material for the Government’s Your Future, Your Super (YFYS) package.

Firstly, we note that we support the government’s stated objectives for the YFYS package – in particular, to ensure funds are maximising net (after fees) returns for members.

As you will be aware, Willis Towers Watson has participated in a collaborative research effort between the Conexus Institute and five leading superannuation industry consultants. The collaboration focused on the performance test element of the YFYS package, which is the aspect we focus on in this submission. The detailed paper issued by the Conexus Institute is attached and forms part of this submission.

Our overarching concern from this collaboration is the conclusion that, in its current form, the YFYS performance test will be ineffective at identifying ‘poor’ funds and will have a high likelihood of falsely identifying ‘good’ funds as poor. This statistical unreliability of past performance as a predictor of future performance in the asset management industry is well established in academic literature. Hence, the imposition of a single performance test with serious consequences for failure, without the scope for qualitative oversight to determine the cause of underperformance and whether it is likely to be repeated in future, could result in the removal of good funds from the industry.

We are therefore not convinced that the performance test as currently cast will be effective in its goal of maximising investment outcomes for members.

In addition, we note that the imposition any pure performance-based test may not achieve its goal of maximising investment returns for members. Our experience in advising pension and other investment funds globally has been that undue focus on peer groups or benchmarks is likely to be counterproductive, as such focus diverts skill and attention away from maximising absolute returns towards the management of career risk (i.e. to reduce the risk of underperformance relative to peers or the benchmark).

Nonetheless, if a past performance-based test is to be introduced, we believe the proposed YFYS test can be improved. While we do not propose a specific alternative here, we suggest an improved performance test would reflect the following considerations:

* The risk of a ‘good’ fund failing the test should be given priority; the test should ensure this risk is acceptably low (in our view the current test does not meet this requirement).
* To avert this risk noted above, the regulator should be given oversight of any decision to impose the most serious consequence (closure to new members). We note that Productivity Commission final report recommended that the outcome of failure of the performance test be 12 months’ remediation overseen by APRA[[1]](#footnote-1).
* A dashboard approach to designing the test (involving more than one performance metric, with an appropriate hierarchy) should be considered. Given the consequences of failure, a desire for simplicity should not override other considerations.

In the event that a single performance metric is retained, we believe that the current approach could still be improved. Possible improvements range from adopting a different metric altogether (as outlined in Appendix 5 of the attached paper issued by the Conexus Institute) through to adopting different benchmarks for the underlying asset classes that are more representative of the opportunity set in each (i.e. specifically for unlisted property, unlisted infrastructure and the alternative assets categorised as “Other”). We would be pleased to be part of further consultations to work through these suggestions.

Yours sincerely

Nick Callil Tim Unger
Head of Retirement Solutions, Australia Senior Investment Consultant

1. Recommendation 4, Productivity Commission’s final report into *Superannuation: Assessing Efficiency and Competitiveness*, 2018 [↑](#footnote-ref-1)