

Director
Members Outcomes and Governance Branch
Retirement Advice and Investment Division
Treasury

Via Email: yfys@treasury.gov.au

2 May 2023

Superannuation Performance Test Regulations 2023

Thank you for the opportunity to provide a submission to the consultation regarding the Superannuation Performance Test Regulations 2023 (draft regulations).

Australian Retirement Trust (ART) was formed through the merger of QSuper and Sunsuper in February 2022 and is one of Australia's largest superannuation funds. 2.2 million Australians trust us to take care of over \$240 billion of their retirement savings. We help our members retire well with confidence, focused on strong long-term investment returns, low fees with the information and access to advice our members need to manage their super and retirement.

ART is broadly supportive of the draft regulations and recognise and appreciate the opportunity provided to the industry for extensive consultation in the forming of these amendments to the Performance Test (the Test). More broadly, we expect the Test will have a positive impact on the industry and will help to improve retirement outcomes for more Australians. We have been pleased to contribute to the consultations Treasury has undertaken in reaching this position.

We offer the following observations as part of our ongoing commitment to advocacy in the best interests of our members and all superannuation fund members:

Extending the lookback window

- ART welcomes the proposed changes to the 'Definition of NIR' (net investment return) and the change to a '10 year lookback period' for assessment as well considered changes that we believe will improve the Test.

Retrospective changes

- In our internal processes ART does not retrospectively apply changes in methodology to historic performance assessments. While we appreciate the intention of the changes is to improve the integrity of the Test, we are concerned about the potential unintended consequences if changes to the Test are permitted to be applied retrospectively:
 - Reclassification of products that have previously passed or failed may erode public perception of the value of the Test
 - The risk of further retrospective changes may inhibit a fund's appetite to innovate and deviate from existing known benchmarks into new asset classes without knowing how they may be retrospectively benchmarked in future years.
- It is ART's view that any and all current and future changes to benchmarks used for the Test should only apply prospectively from the date of the change.

Stability of the Test

- Prospective changes to asset class benchmarks in the Test should be infrequent. Where changes occur, it should be anticipated that Funds are likely to alter investment strategy and update asset class benchmarks in response, leading to increasing transaction costs which is ultimately to the detriment of member returns. The threshold for changing an asset class benchmark should therefore be high and consideration should be given to the potential costs to members of any changes.
- With respect to the proposed changes, we advocate for the existing benchmark for Australian Fixed Income, the *Bloomberg Ausbond Composite 0+ Index* to be retained unchanged. ART's view is that the existing benchmark is the most representative benchmark for the Australian Fixed Interest asset class. Consequently, incurring any associated transaction costs to implement the proposed new benchmark would not be in members best financial interests in our view.

Member communication and outcomes

- The Test aims to increase member engagement. ART considers that the proposed changes could make it more difficult to understand a fund's performance and compare funds:
 - Retrospective changes may produce meaningful shifts in outcomes that are complex to communicate.
 - Increasingly granular benchmarks:
 - Make it difficult for members to relate the reported investment strategy to Test outcomes.
 - May produce vastly different outcomes between funds that appear to have similar investments.
- Furthermore, ART advocates for a consistent approach to the assessment of products across the various regulations/prudential standards. We believe that displaying a net return measure definition that is after administration fees, costs and advice fees in the APRA Choice Heatmap, Member Outcomes Assessment and YourSuper comparison tool would create consistency with investor outcomes across all performance frameworks and avoid confusion for members.

We trust this feedback will be beneficial and would welcome the opportunity to discuss our submission in further detail.

Chris Ramsay, Senior Manager Policy and Government Relations is the primary Australian Retirement Trust contact regarding our submission and can be contacted on 07 3029 9666 or Christopher.Ramsay@art.com.au.

Yours sincerely,

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Australian Retirement Trust