TREASURY SUBMISSION: ANNUAL SUPERANNUATION PERFORMANCE TEST

Design Options Consultation Paper

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CONTACT DETAILS

Ms Deborah Latimer
Chief Risk Officer
HUB24 Limited
Level 2, 7 Macquarie Place
SYDNEY NSW 2000
Email: Dlatimer@hub24.com.au

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Email YFYS@treasury.gov.au
Superannuation Efficiency and Performance Unit
Retirement, Advice and Investment Division
The Treasury
Langton Crescent, PARKES ACT 2600

RE: Annual Superannuation Performance Test – design options: Consultation paper

HUB24 welcomes the Treasury Consultation Paper as it provides an opportunity to advocate for the benefits of choice and advice to Australian superannuation members. This paper will highlight how choice superannuation solutions are delivered to consumers in the platform market to enable them to achieve their retirement outcomes with appropriate member protections, without the need for the APRA annual performance test (APRA Test). HUB24 would welcome an opportunity to meet with Treasury to discuss our submission.

Today's choice superannuation market has evolved through significant consumer demand and industry innovation from traditional institutional or "stand-alone" superannuation funds to intermediated models that provide diversity and optionality for active choice superannuation members and their professional financial advisers. The HUB24 Super model is one example.

Whilst the APRA Test provides appropriate protections for non-active superannuation members who are mandatorily defaulted into a single investment portfolio (investment option) where portfolio performance can be measured against a relevant benchmark/ test, the choice environment is significantly different.

In choice, professional financial advice supports individual member investment portfolio construction according to the member's needs and circumstances. Individual investment portfolios are constructed from a wide and diverse range of accessible investments (such as managed funds, Exchange Traded Fund's (ETF's), direct securities and term deposits). Portfolio performance in choice, as a function of the advised superannuation member's individual needs and circumstances, is highly variable and is therefore unsuited to performance measurement by the APRA Test.

The primary aim and first principle of the APRA Test should be to deliver improved member outcomes. In choice however, the APRA Test reduces member choice and diversification of investment, undermines the value of professional advice and the role of choice member's financial advisers in constructing investment portfolios designed to meet the individual needs and circumstances of members, and does not deliver any additional member protections. Put simply, the APRA Test in Choice does not deliver improved member outcomes.

Portfolio performance in choice, as a function of the advised superannuation member's individual needs and circumstances, is highly variable and is therefore unsuited to performance measurement by the APRA Test.

The APRA Test in choice involves the measurement of potentially thousands of investments used to construct individual member portfolios. Application of the APRA Test at this granular level is impractical and costly for the sector. For the platform sector that supports advised members by providing optionality, there is significant additional cost in obtaining and collating relevant investment data (majority from third parties who are not APRA-regulated) for provision to APRA.

An additional cost burden is also borne by the advice sector when one or more underlying investments fail the APRA Test as additional time is required by advisers with their clients to explain the often immaterial impacts. Delivery of choice to consumers of financial services is consequently made more difficult.

In this submission we make **five (5) submissions** in response to the questions posed by Treasury and **nine (9) recommendations** on options for reform.

About HUB24

HUB24 Limited (HUB24) is an ASX-200 company and specialist platform provider whose purpose is **empowering better financial futures, together.** HUB24's total Funds Under Administration (FUA) was $100 billion as at 31 March 2024.

HUB24, through the HUB24 investment (HUB24 Invest) and superannuation (HUB24 Super) platform, empowers Australian Financial Services Licensees (Advice Licensees) and their financial advisers to deliver a better financial future for consumers. We do this with innovative technology, customer service, education, and availability of a broad choice of accessible investments on the platform. HUB24 also leverages data and technology to develop innovative solutions for financial advisers and Advice Licensees that create value and enable the delivery of more accessible and cost-effective advice to more consumers.

Advice Licensees and their financial advisers value the superior technology and service provided by specialist platform providers. HUB24 maintains deep relationships with Advice Licensees and 4,382[1] financial advisers who currently use HUB24 Invest and HUB24 Super. The HUB24 platform was rated Best Platform Overall in the 2023 Investment Trends Platform Competitive Analysis and Benchmarking Report.

HUB24 Super

HUB24 Custodial Services Limited is the principal of the HUB24 Superannuation Fund (HUB24 Super) which is the fourth fastest growing super fund in Australia with 91,551 advised member accounts serviced by 510 Advice Licensees and some 2,787 financial advisers. HUB24 Super has $32.4 billion of Funds Under Administration (FUA) as at 31 March 2024. The Trustee of HUB24 Super is HTFS Nominees Limited (a wholly owned subsidiary of Equity Trustees Limited). The Trustee has appointed HUB24 Custodial Services Limited as the fund promoter, custodian, and administrator.

HUB24 Super does not offer default superannuation products. The members of HUB24 Super typically have the benefit of professional financial advice provided by third party financial advisers through their Advice Licensees. With the assistance of their financial adviser, HUB24 Super members construct an individually tailored investment portfolio from a wide range of accessible investments (Australian Equities, International Equities, Managed Funds, Managed Portfolios, ETFs, Term Deposits or Longevity products) available on the platform.

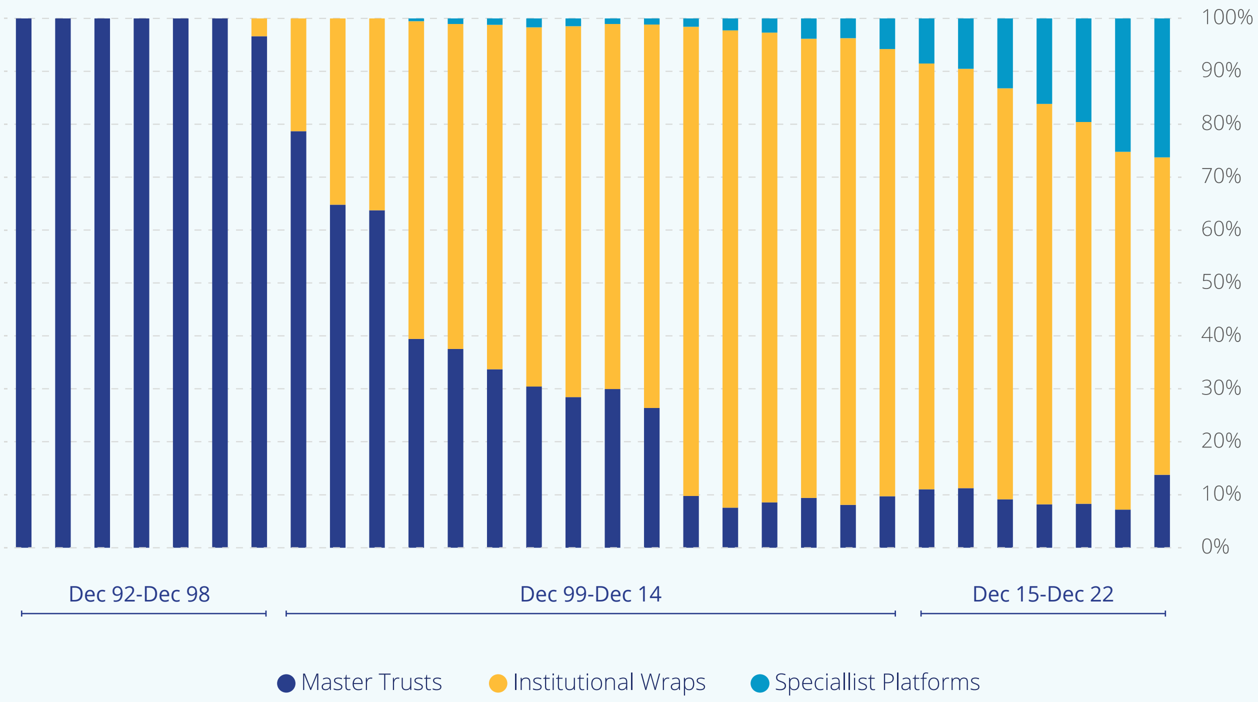
[1] As at 31 March 2024

About the Australian Platform Sector and Superannuation

At close to $1 trillion in funds under management, platforms are a significant part of the Australian economy, and with 75% of new client portfolios administered by platforms today, they have become ubiquitous.[2]

The Australian Investment Platform market has grown at a CAGR of 6% since March 2014. This growth has been driven by a focus on providing a 'supermarket' of product choice, to enable members with their financial adviser to create an investment portfolio to align with their needs as defined in their financial plan.

Gross Flows by Platform Segment



The chart above, sourced from UBS, highlights how specialist platform providers have evolved over the last 30-40 years capturing increased net flows, over $80 billion in aggregate, whilst incumbent platform providers have seen net outflows increase by more than $20 billion.[3]

[2] Investment Trends Adviser Tech 2023

[3] UBS Research, https://insideadviser.com.au/next-gen-platforms-surge-while-adviser-fua-doubles/

Platforms and Superannuation

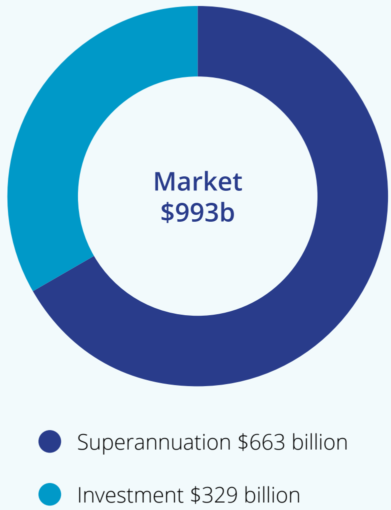
Of the $993.3 billion in FUA in the Australian Investment Platform market at 30 June 2023, $663 billion is invested in superannuation.

Australia's superannuation system is the fifth largest pension system globally and is forecast to grow from over $3.5 trillion today[4] to almost $9 trillion over the next 20 years[5]. The growth of the superannuation system has been driven by member contribution inflows as well as robust investment returns. This growth is expected to continue with the Australian Government mandated superannuation guarantee contribution rate progressively increasing to 12% by July 2025. The below diagram shows the proportion of superannuation assets by market segment.[6]

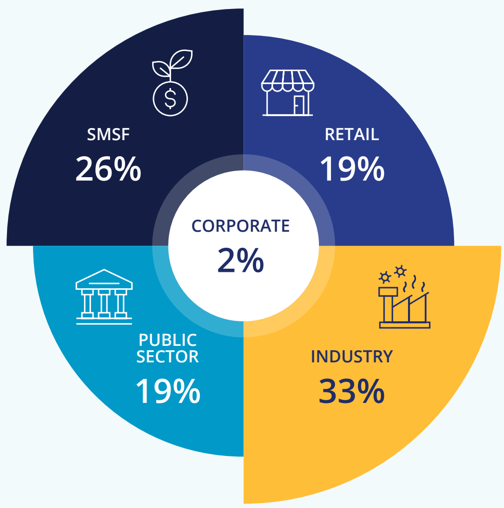
For superannuation investment through a platform, it is the members individually constructed and tailored "portfolio" of investments that constitutes a relevant "*superannuation interest*"[7] held by the member.

All investment decisions and choices are made by the member under advice by their adviser or by the member's adviser under appropriate authority from the member. Platforms do not provide access to default superannuation products such as MySuper.

Australian Investment Platform Market



Proportion of super assets by market segment by AUM



[4] Global Pension Assets Study 2023, Thinking Ahead Institute

[5] Deloitte Dynamics of the Australian Superannuation System, The Next 20 Years to 2041

[6] ATO Self-Managed Super Fund Statistical Report March 2023

[7] Within the meaning of section 10 of the *Superannuation (Industry Supervision) Act 1993*

SUBMISSIONS AND RECOMMENDATIONS

1. Reform should support member choice to meet individual member needs, achieve good member outcomes, and recognise that choice members receive professional financial advice.

Do you agree with these principles? Are there any other principles that should be considered?

Choice superannuation provides many Australians who wish to actively engage with their superannuation, a broad variety of diversified investment choices. Choice members make active decisions about their superannuation (electing choice products) and are usually served by professional financial advisers who deploy expertise to construct member's superannuation investment portfolios that are best suited to the needs and circumstances of the individual member.

Individual member needs

The APRA Test in Choice does not reflect the real lifetime needs of engaged members (including optionality) or the professional nature of the direct relationship between a financial adviser and consumer.

The *Your Future Your Super* regulatory framework that has evolved (now including the APRA Test), reflects a systemic emphasis, and set of assumptions that are default centric. This emphasis fails to recognise the individual needs of choice members and the resulting framework assumes that:

- Members are engaging with one financial product or single generally default "investment option" whereas the advised platform choice sector delivers multiple investment products reflecting '*choice*' - through provision of professional financial advice and the superannuation platform sector that enables efficient advice execution.
- The composition of superannuation member portfolios is generally the same or similar across all funds (or member cohorts) whereas in the advised platform choice sector each individual member's portfolio is constructed for them based on their individual needs and circumstances (for example income needs or downside risk needs) and under advice.

The APRA Test is 'financial -product- centric' as opposed to being 'member-centric'. The APRA Test as applied to choice does not reflect that the member outcome is driven by the member's individual needs and circumstances. The framework is based on members who are not engaged with their superannuation and ignores advised and therefore highly engaged members.

The superannuation menu on the HUB24 platform has approximately 4,000 accessible investments including managed portfolios, managed funds, direct securities, term deposits and cash. This wide array of accessible investments reflects the wide variety of client needs met by financial advisers. These needs are met through different combinations of these assets.

An accessible investment within a member's portfolio may fail the APRA Test but not genuinely underperform and still provide a good member outcome.

Examples of client needs met by financial advisers through a unique combination of assets in a choice member superannuation portfolio include:

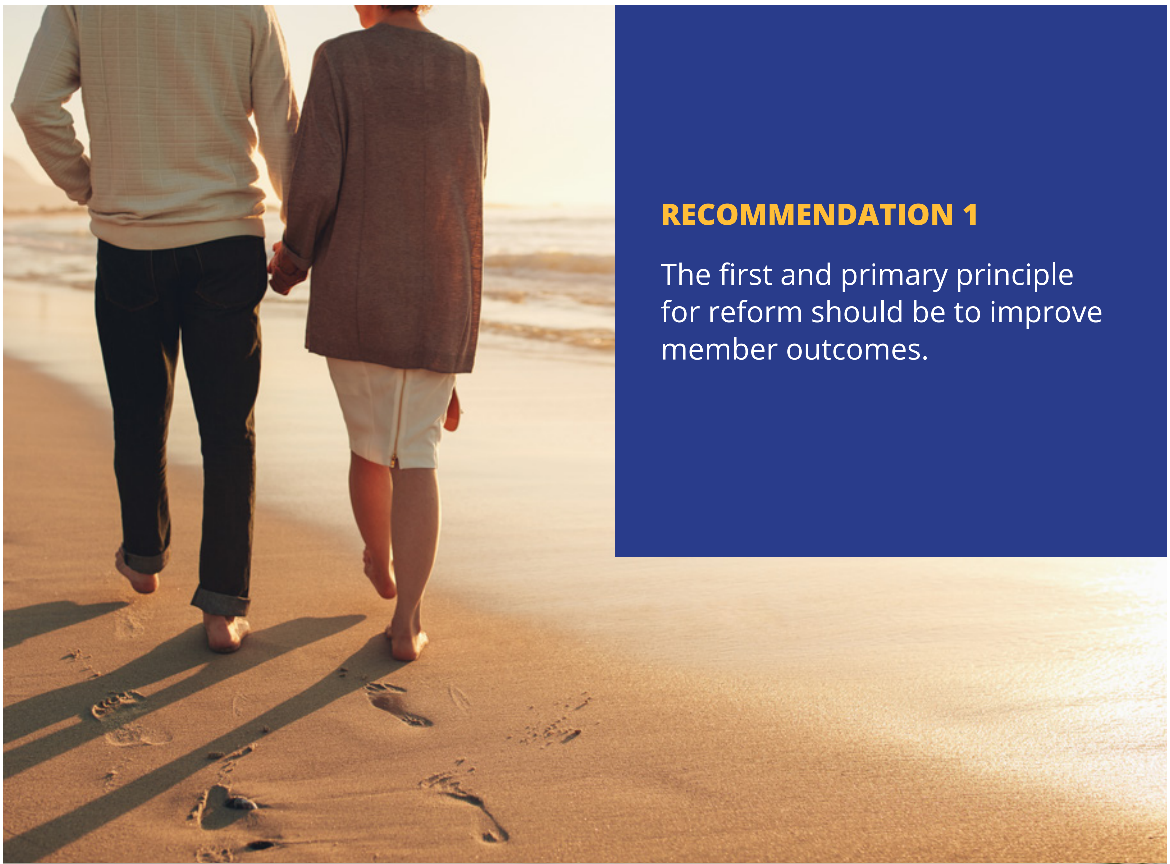
- **A young person**, such as the child of an advised client, who has just started full time work. This young person may want to take a more aggressive investment approach with their superannuation as they have a long-time frame until retirement.
- **A wealth accumulator** with significant property and Australian share assets outside of superannuation who wants to invest in a tailored superannuation portfolio with exposure to assets such as alternatives and international holdings in mainstream and emerging markets. The end result is a more diversified overall wealth strategy.
- **A pre-retiree** who wants to invest in more secure assets to mitigate downside risk in the years leading up to retirement. Security of capital is the driver rather than investment return.
- **A retiree** with a need for income who has deliberately biased their portfolio to income producing funds and securities. The focus is reliable income to live on.

The APRA Test compares performance to a benchmark, not to the individual member need the overall portfolio was constructed to meet. The APRA Test ignores the professional role of the financial adviser in constructing a portfolio for a member, in monitoring that portfolio over time, and in adjusting investments as appropriate for the individual member's needs and circumstances.

Member experience and outcome

Where one or more of a choice member's underlying investments used to construct the member's superannuation portfolio fail the APRA Test, the member experience and potential outcome is likely to be negatively impacted. Such failure may amount to a "false positive" as it is not necessarily reflective of the member's bespoke investment strategy or the performance of the members total portfolio. An accessible investment within a member's portfolio may fail the APRA Test but not genuinely underperform and still provide a good member outcome. There are a wide range of scenarios where the APRA Test application to choice may produce a poorer member outcome. Examples are:

- **Allocations to higher risk investments where performance is volatile** - A member may have invested a small portion of their overall portfolio in higher risk funds where performance is more volatile ito achieve a return premium over time (examples are specialised funds with exposure to sectors such as technology, or regional markets). The APRA Test does not consider the role of such investments in the member's overall investment strategy.
- **Use of investments focused on different sectors or asset classes for specific reasons** – A member with a large exposure to Australian shares may choose to orientate their international share exposures to investments with limited holdings in resources and financial services companies given the higher exposure to these sectors in their Australian holdings. Alternatively, a member may have large personal holdings in Australian resource and banking stocks and consequently may have worked with their financial adviser to bias their superannuation portfolio exposures to other asset classes and/or share market sectors to create a more diversified investment strategy according to their needs.



RECOMMENDATION 1

The first and primary principle for reform should be to improve member outcomes.

RECOMMENDATION 2

Reform should recognise the importance of choice and professional advice in achieving improved member outcomes, including recognising the inherent differences in superannuation solutions offered through platforms.

2.The existing regulatory framework for choice provides adequate and appropriate protections for members.

Choice members are not subject to the same "harms" as default members. The genesis of the APRA Test was the Productivity Commission Report 91[8] of 21 December 2018. The Productivity Commission clearly recognised that the harm is not the same across default and choice contexts.

The harms in choice

The intended "*consumer harm*" the Productivity Commission sought to address via an elevated "*outcomes test*" for choice products was member outcomes. The Productivity Commission made the important proviso that any such "*outcomes test*" should have less focus on investment strategies "*in light of the additional control members had over managing their investment strategy*"[9].

Existing protections in choice are adequate and appropriate

Through the existing regulatory framework, choice members are protected from consumer harms to member outcomes at every stage of an intermediated value chain including by:

- The regulation of registered professional financial advisers that imposes a range of duties and obligations including the "*best interests duty*" and the obligation to give appropriate advice. ASIC has demonstrated the significance of these protections and its willingness to take regulatory action against financial advisers through ASIC Report 779[10] released in February 2024. ASIC has recently written to advice licensees expressing concerns that financial advisers who do not have a reasonable basis for retaining a client-member's under-performing[11] superannuation investment forming part of the members investment portfolio may have failed their duty to act in the best interests of their client and to provide appropriate advice.
- The Professional standards for financial advisers and legislated Code of Ethics.
- The ASIC single licensing regime for Australian Financial Services Licensees (AFSLs) who authorise financial advisers to provide advice to members that imposes significant obligations on Advice Licensees including obligations to ensure that they have adequate risk management and compliance systems to appropriately supervise the giving of financial advice to members. Members will typically have ongoing service arrangements in place with Advice Licensees.
- The ASIC single licensing regime for AFSLs authorised to issue financial products that are accessible by superannuation members has significant obligations including minimum investment product disclosures (including the Design & Distribution Obligations (DDO) regime which includes publication of a Target Market Determination (TMD)).

[8] Superannuation: assessing Efficiency and Competitiveness

[9] At page 491

[10] Superannuation for choice products: What focus is there on performance?

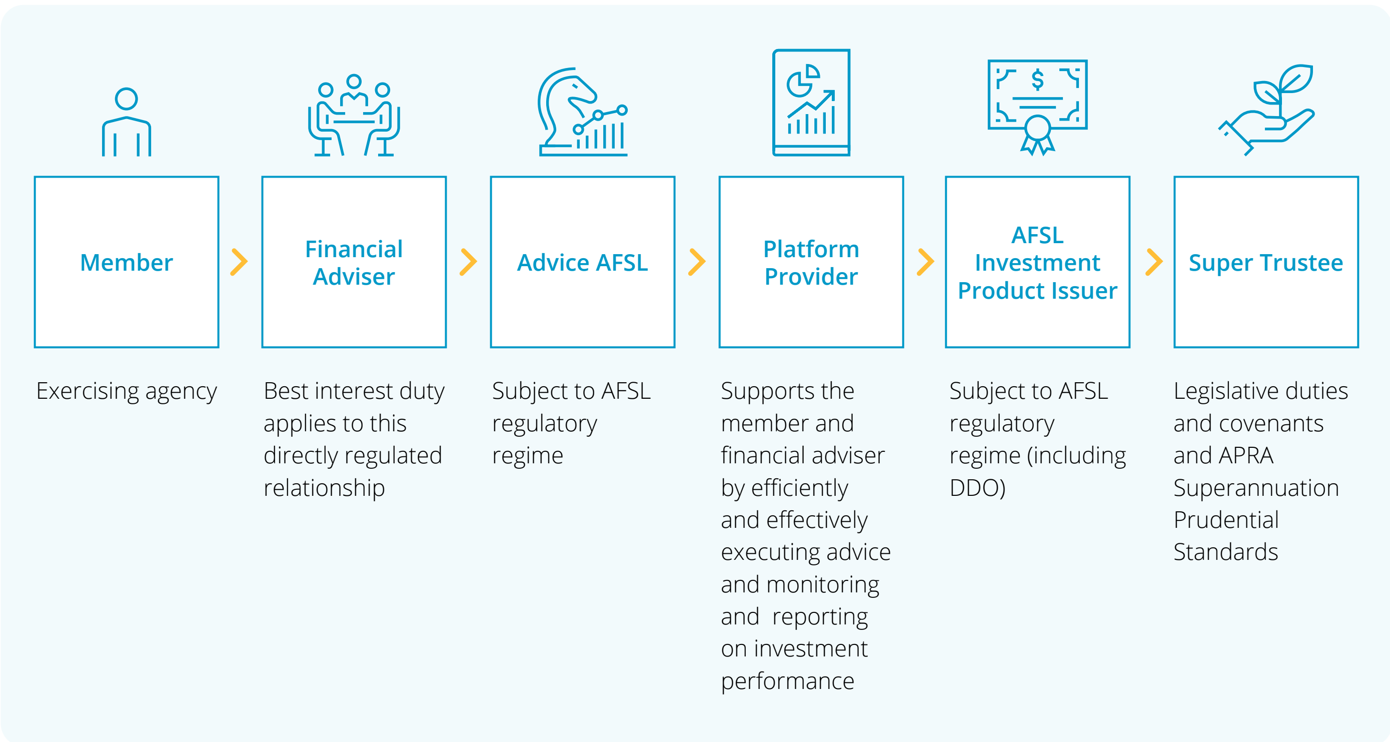
[11] ASIC REP779 measures investment performance against each investments PDS over a 5 year period annualised.

- The regulation of superannuation trustees directly through the *Superannuation (Industry Supervision) Act 1993* and related APRA Superannuation Prudential Standards together with the RSE Licensing regime. Superannuation trustees are required to act in the "*best financial interests*" of members, and pursuant to the Retirement Income Covenant, to develop a retirement income strategy for their members, improving the financial outcomes for Australian retirees. Trustees must regularly assess the outcomes provided to members and identify opportunities for improving these outcomes, supported by sound strategic and business planning. The objective is to ensure that strengthening member outcomes is central to an RSE licensee's business operations. APRA's Superannuation Prudential Standard 530 *Investment Governance* requires trustees to implement a sound investment governance framework and manage investments in a manner consistent with the interests of beneficiaries. Superannuation trustees must satisfy these duties and obligations when exercising discretion to retain or remove accessible investments.

Trustee independence

The current APRA Test extends to Trustee Directed Products (TDP's) defined inclusive of products of trustee related entities. The related-entity relationship does not, however, translate to the trustee having any control over the performance of the product that is being tested. Since recommendation 3.1 of the Financial Services Royal Commission introduced the "no other role or office" requirement prohibiting trustees of an RSE entity from assuming any obligations apart from those arising from or in the course of its performance of the duties of a superannuation trustee, the independence of the trustee has been significantly reinforced.

These existing member protections across the end-to-end choice value chain are illustrated in the diagram below:



Choice member agency

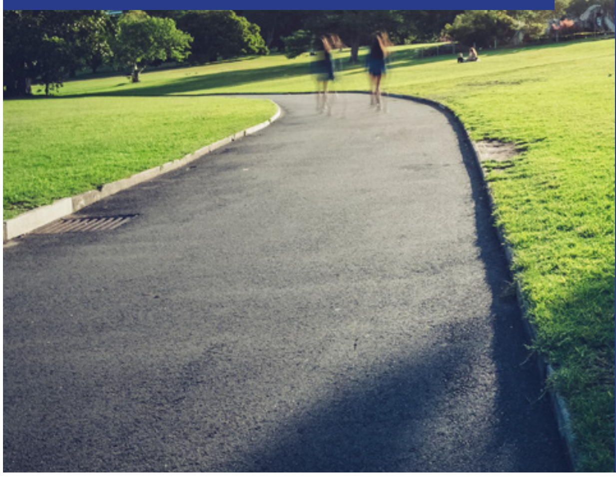
Regulatory settings for choice should also recognise the agency of the choice superannuation member. Unlike default members where superannuation trustees play an active role in directing investment options for member cohorts who therefore benefit from protection against being defaulted into an underperforming investment option, choice members are actively engaged with their superannuation and use professional financial advisers to ensure that their superannuation investment is constructed to meet their individual needs and circumstances.

With respect to the investments accessible via the HUB24 platform (for HUB24 Super), members have the benefit of robust investment management practices performed under contract with the trustee. These practices include a range of important controls such as professional investment management, the application of holding limits for each investment, requirements for research reports where applicable, monitoring of and reporting to the trustee on investment performance and any exceptions or outliers, together with explanations relevant to the trustee's discretion to retain the investment, and personalised reporting direct to the member on investment performance in annual member statements

RECOMMENDATION 3

The APRA Test should not extend to choice, in particular in an adviser directed product. The current regulatory framework protects choice members from potential harms.

Where the APRA test is extended to choice, Recommendation 4 is provided as alternative to Recommendation 3.



RECOMMENDATION 4

Clarify the application of the Trustee Directed Product (TDP) definition to ensure member-accessible investments where the trustee has no control or influence over the investment strategy are excluded from the APRA Test.

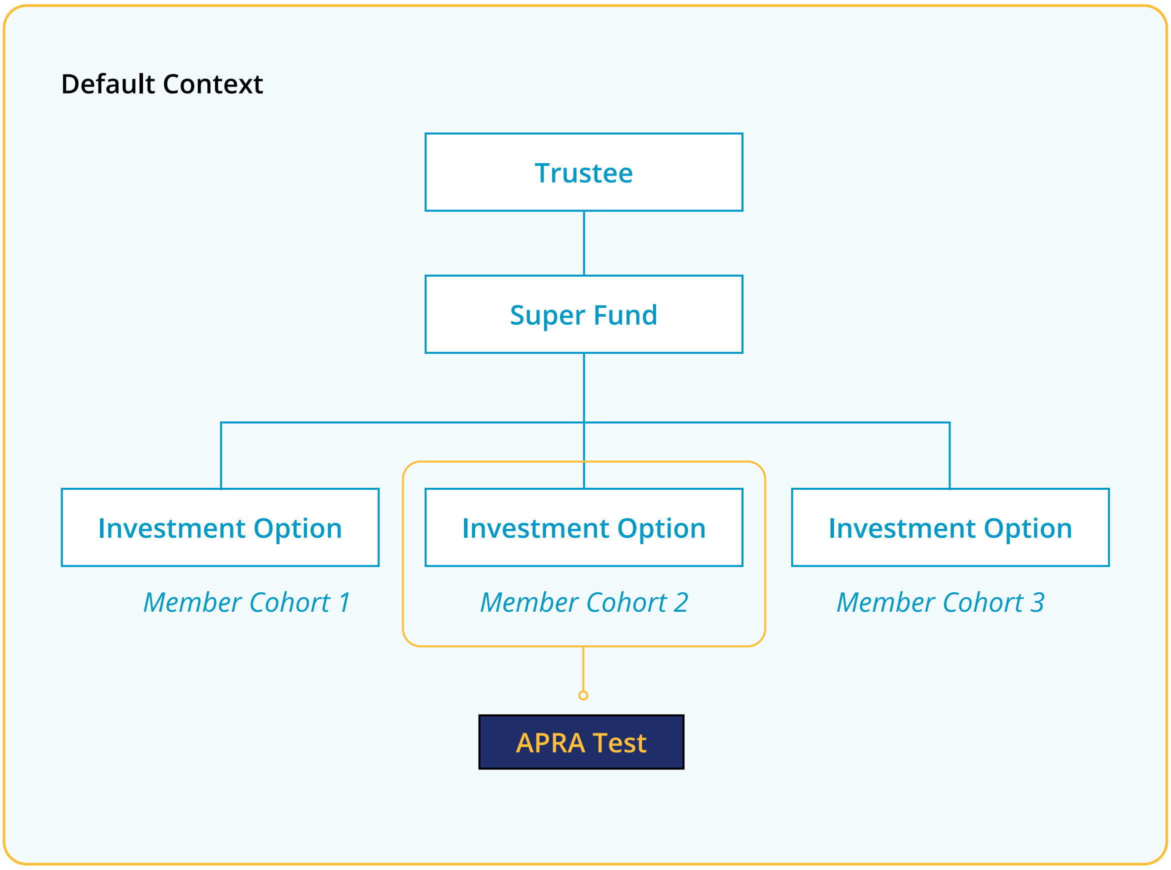
3. The APRA Test does not measure performance of a choice members portfolio which can lead to poor member outcomes.

Should different assessment methods be applied to different cohorts of products?

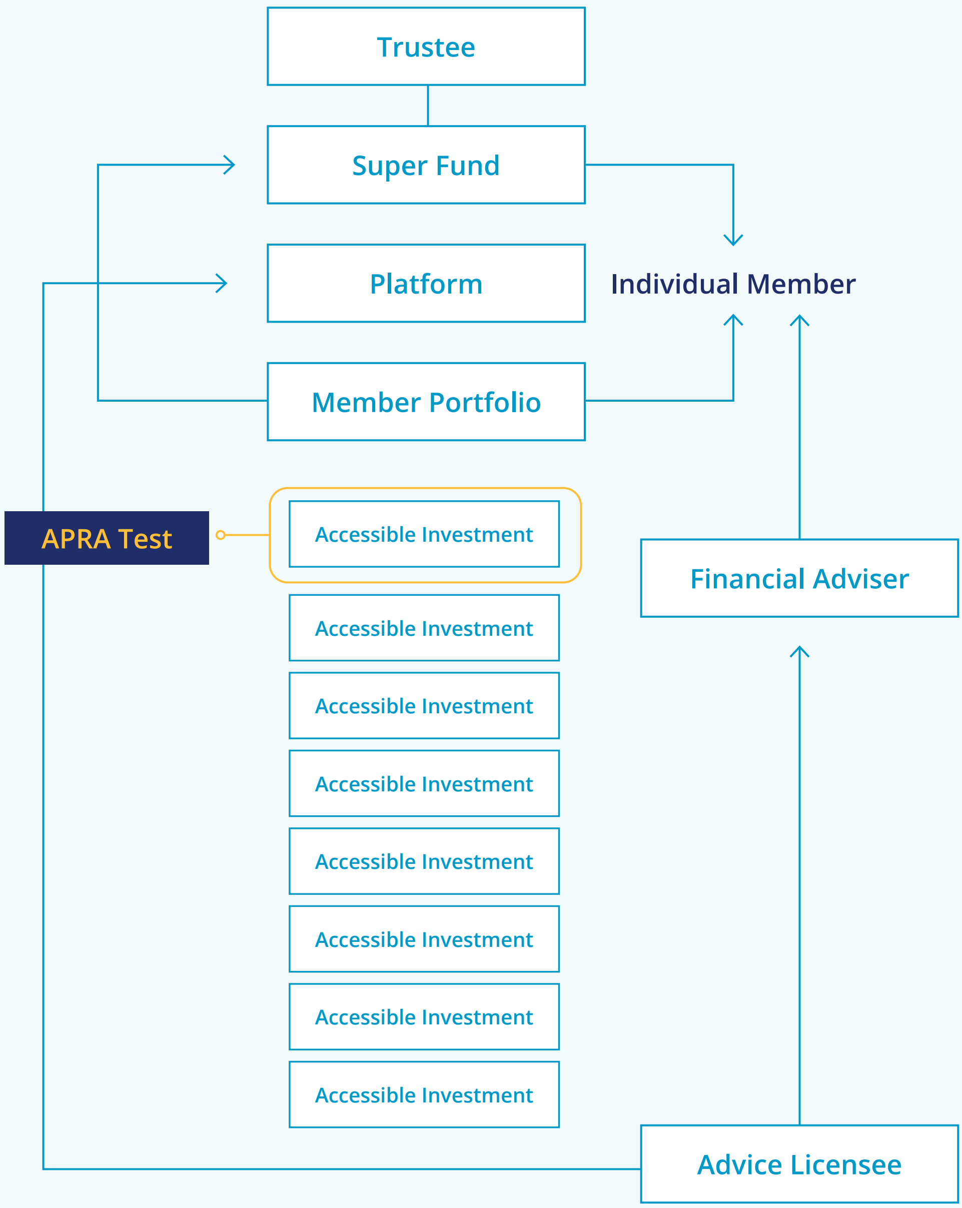
Do you agree that the 'other products' outlined above are unsuitable for testing?

Unequal test

Unlike in a default context where the APRA Test provides a relevant measure of performance of a member's whole superannuation investment, in choice, the APRA Test seeks to measure the performance of each individual investment underlying the members investment portfolio. The diagram below illustrates the difference.



Choice Context



In this way, the APRA Test when applied in a choice context, fails to account for significant differences between default and choice superannuation environments. The result is that the choice platform sector (and members) is unfairly disadvantaged by the APRA Test.

Important differences between default and choice

Default	Choice Platforms
Members are not advised (direct)	Members are typically advised.
Members do not actively choose the investments within their superannuation.	Members are actively engaged in selecting the investments within their superannuation account.
Default investment options (such as a 'balanced' or 'growth' fund).	No default investment options.
Investment options offered are common to a member cohort.	A member has an individually constructed portfolio of investments designed to suit their individual needs and circumstances.
Investment options have a single investment strategy.	Members access a wide range of accessible investments with multiple investment strategies.
Typically, the default investment option is selected with no ongoing review or further ongoing considerations.	The nature of the arrangement with the professional financial adviser means the member's investment selections are reviewed regularly and adjustments made, as required, taking into consideration any changes in the members personal financial circumstances.

The APRA Test is intended to apply to a "superannuation product". The "product" that is tested in the default context is the member's "investment option" (or whole-of-portfolio) which consists of the member's entire relevant "*superannuation interest*" in the fund. In the default context the tested "product" or "investment option" has a single investment strategy and is common to a cohort of members (cohort-based). This "product" represents the member's whole superannuation investment portfolio.

Whilst the nearest equivalent choice "product" would be the member's entire investment "portfolio" in the fund which, like a default "investment option", represents the members entire relevant "*superannuation interest*" - the APRA Test does not test the choice member "portfolio". Instead, the choice "product" that is subject to the APRA Test is each underlying accessible investment that makes up the member's total portfolio. This is unequal.

In the platform sector each underlying accessible investment has its own unique investment strategy and objectives (as disclosed in its PDS) and is not cohort-based but is instead individual to a specific superannuation member.

We suggest that the definitions of a "Part 6A product" in the YFYS Act and regulations are not appropriately reflective of the intent that the APRA Test should focus on the performance of a "superannuation product". Section 60C of Schedule 2 of the YSYF Act (*Addressing underperforming super*) provides that the APRA Test applies for each "*Part 6A product offered by the entity*" (being a regulated superannuation fund). Section 60B explains that a Part 6A product is a MySuper product or "*a class of beneficial interest in a regulated* *superannuation fund*" where identified by the regulations. At 9AB.2 of the regulations, Trustee Directed Products (TDP's) are identified as such.

At 9AB.1 a "*platform TDP*" means a trustee-directed product that is offered through one or more investment menus of the platform type, as reported to APRA in accordance with the applicable RSE structure standards (in other words the data collection standards). Notwithstanding the section 6A definition, a platform-accessible investment "product", whether a TDP or EDP, is not reflective of the member's relevant "*superannuation interest*". Neither is it the equivalent of the default members "investment option". Platform-accessible investment products are financial products issued by product providers who are not typically APRA-regulated. The superannuation trustee makes relevant decisions as to whether to offer and continue to offer these underlying financial products within the fund.

RECOMMENDATION 6

Clarify that individual investments used to construct a choice member's superannuation portfolio, such as are available on a platform, are not a Part 6A product.

RECOMMENDATION 5

The APRA Test should not extend to choice, in particular to an adviser directed product.

4. Failure of the APRA Test in choice has different consequences and can produce poor member outcomes

Should the consequences be adjusted to improve outcomes for members?

Should a single accessible underlying investment comprising of a component of a choice member's superannuation portfolio fail the APRA Test, there is no wider member "cohort" impact, and "fund" impacts (such as consolidation) are not the same as in default.

Poor member outcomes are produced where, for example, one or more underlying accessible investments fail the APRA Test:

- and that failure has no material impact on the overall investment strategy chosen for or performance of the member's total superannuation investment portfolio;
- and they do not fail the relevant and disclosed investment objectives of that financial product (as disclosed in the PDS);
- in a relevant year but outperform over a different timeframe, or subsequently outperform.

Poor member outcomes are also produced (as acknowledged by Treasury) where the APRA Test has influenced investment manager and investment product design that results in "benchmark hugging" which further limits member choice.

Notification requirements

Such poor member outcomes are exacerbated by the prescribed notification requirements. The YSYF Regulations include template notifications for Part 6A products that fail the APRA Test. Where that "product" is a TDP accessed via a platform investment menu the prescribed notification template states "*Your superannuation **investment option** has failed the annual performance test. You should think about moving your money to a different superannuation **investment option or fund***"[12]. This wording does not properly represent the circumstances or outcome for a member where one or a number of underlying accessible investments making up the members total superannuation portfolio (a sub-set only) have failed the APRA Test.

As we have explained at Submission 3 above, whilst the APRA Test is applied to an "investment option" in a default context, it is not applied at the same level in the choice context. Consequently, the member impacts are not the same. The test can produce "false positives" for a Choice member .

The prescribed notification goes on to state "*The Australian Government tests your superannuation **funds' investment option** every year to make sure your savings are well managed for when you retire.*"[13] There is, however, no fund-level consequence of a failure of the APRA Test by one or more underlying investments (other than a trustee decision whether to offer/retain it). This wording is potentially misleading.

If an underlying platform-accessible investment that is a Component of a Choice member's total superannuation portfolio fails the APRA Test it will never have the consequence of any superannuation fund consolidation. This is because:

(i) The only "fund-level" impact of such failure is a trustee decision whether to continue to offer the investment to members (especially the case where the accessible underlying investment is externally managed such that the trustee has no control)

[12] We also note this wording mistakenly assumes the APRA Test is applied to a single investment option comprising a member's superannuation interest.

[13] We also note this wording mistakenly assumes the APRA Test is applied to a single investment option comprising a member's superannuation interest.

(ii) There is no member "cohort" impact of such failure. Individual Choice members total superannuation portfolios are constructed by the member (typically professionally advised) according to the member's individual needs and circumstances

(iii) Depending on the percentage weighting of a failed investment, failure of the APRA Test, at the individual Choice member level, may be immaterial to the achievement of that member's superannuation investment strategy and therefore member outcomes

(iv) Failure of the APRA Test may have no impact on achievement of the investment strategy of the underlying accessible investment as disclosed in that product's PDS and as consciously selected by the member (typically as professionally advised) and in fact that financial product may nevertheless outperform its own investment strategy.

Item (iii) above is illustrated by the example in the table below. In this example, the professionally advised member requires an Australian equities exposure that utilises two different active managers with different investment styles ("value" and "growth"). The benefit of the blending is to achieve a better risk-adjusted return through diversification across different managers and investment styles while also aiming to outperform the index.

The table below shows the annual performance returns for a 10-year period from 1 January 2014 to 31 December 2023 for:

- the specialist growth and value manager selected
- the performance from a combination 50/50 blend
- and the performance of the benchmark (S&P/ASX200 Total Return).

The growth manager underperformed the index for the 3 years from 2016 to 2018. If the growth manager had failed the APRA Test and was removed from the menu, the member would have missed the significant outperformance the following two years and lost the ongoing diversification benefit of the 50/50 blend. Performance of the blend for the total period was better than the benchmark.

Calendar Year	Growth manager return	Value manager return	Index return (S&P/ ASX 200 Total Return)	50/50 growth and value return
2014	10.14%	7.44%	5.61%	8.79%
2015	17.27%	1.01%	2.56%	9.24%
2016	1.17%	14.85%	11.80%	7.41%
2017	9.05%	16.02%	11.80%	12.45%
2018	0.24%	-14.64%	-2.84%	-7.26%
2019	30.61%	23.63%	23.40%	27.37%
2020	33.30%	-8.96%	1.40%	14.29%
2021	16.37%	19.99%	17.23%	17.67%
2022	-26.74%	4.66%	-1.08%	-15.27%
2023	23.42%	4.95%	12.42%	15.08%
Total Return Annualised	**11.48%**	**6.89%**	**8.23%**	**8.98%**

Application of the APRA Test on each managed fund above also does not consider whether the blended portfolio delivered to the member's need including the risk and return objective which, in this example, may have been to achieve benchmark returns with lower volatility.

Items (i) and (iv) above are illustrated by the example in the table below. Unlike a default My Super member invested in a default "investment option", this Choice member's superannuation portfolio is made up of multiple externally managed investments.

The trustee does not manage the assets. The role of the member's financial adviser is to continually monitor the portfolio and, in consultation with the member, switch underlying investments at any time if he or she believes an investment is not performing as intended. Financial advisers deploy a vast array of investment strategies to meet the individual needs of their clients including risk, as well as personal circumstances such as age, earning capacity, and health. A platform provides an efficient way for financial advisers to deliver tailored solutions.

Example of a professionally advised individual HUB24 Super member investment portfolio via the Platform	
Term Deposit - 180 days Adelaide Bank, 5.27%pa, cash at maturity 7/02/2024	30%
Managed Funds	
ALR2783AU – Australian Eagle Trust	4%
AMP1179AU -Dexus Core Infrastructure Fund -Platform A	1%
ETL0071AU – T. Rowe Price Global Equity Fund	4%
ETL2805AU -Alexander Credit Income Fund	7%
ETL6126AU -GuardCap Global Equity Fund	3%
FID0008AU -Fidelity Australian Equities Fund	3%
HOW0164AU -Ardea Real Outcome Fund	3%
HOW0164AU -Alphinity Global Equity Fund	3%
MAQ0464AU -Arrowstreet Global Equity Fund	6%
OMF0009AU – Realm High Income Fund -Wholesale Class	4%
PIM0028AU -DNR Capital Australian Equities High Conviction Fund	3%
ETFs	
USTB -ETFS US Treasury ETF ETF Units	5%
VGB -VNGD Aus Gov Bond ETF Units	4%
Listed Securities	
ALQ – ALS Ltd ordinary	3%
BHP – BHP Group Limited ordinary	2%
CBA -Commonwealth Bank ordinary	6%
NAB -National Australia Bank ordinary	1%
Cash	8%
Total	**100%**

RECOMMENDATION 7

The APRA Test should not extend to choice, in particular to an adviser directed product. The current regulatory framework protects choice members from potential harms.

Where the APRA test is extended to choice, Recommendation 8 & 9 are provided as alternatives to Recommendation 7.

RECOMMENDATION 8

Remove the notification requirement for choice products/ clarify notification requirements to provide increased flexibility for trustees to tailor notifications to improve member experience.

RECOMMENDATION 9

Reform should not create barriers to superannuation trustees investing in new and innovative ways/products to deliver to member needs and improve their Retirement outcomes.

5. The APRA Test in choice unfairly disadvantages the choice sector and is impossible to comply with

Implementation is impractical

The APRA Test assesses each and every underlying accessible investment that contributes to a choice members total superannuation portfolio. The implementation consequences for the choice and platform sectors are disproportionate compared to the default sector.

For the advised platform choice sector, the APRA Test is at best impractical and irrelevant and at worst misleading. The APRA Test requires access to and collection of relevant return and fee data (including benchmark performance data) from thousands of third-party investment managers (who may not themselves be APRA-regulated nor constructing investments with the APRA test in mind). The APRA Test represents a significant overhead for the choice sector. Performance data would need to be collected from multiple parties, and then manipulated by the trustee or their service providers to report to APRA. None of this effort would be driven by member needs, result in a significantly different member outcome, or provide any meaningful additional member protections.

Choice sector is unfairly disadvantaged

APRA Test failure rate comparisons published by regulators and by Treasury are unfair on the choice and platform sectors.

In the Consultation Paper, it is stated that the current APRA Test applied to 80 MySuper products across 14 million member accounts and $900 billion in assets, and as expanded to TDPs, applied to 805 "products" across 4 million member accounts and $360 billion in assets. This appears to us to be unfair as the 805 choice products are actually sub-components of a member's superannuation investment portfolio (this is not an "apples and apples" comparison). We submit that these numbers would be lower if correctly attributed to the Choice member's total superannuation investment portfolio as the nearer equivalent to the MySuper member's default "investment option".

The Treasury Consultation Paper states that since the APRA Test was extended to TDPs in 2023, 12% of TDPs were found to be underperforming citing a 4% failure rate for non-platform TDPs and a 25% failure rate for platform TDPs. Treasury claims that "*failed products will now be subject to heightened APRA scrutiny and will be closed to new members if they fail in 2024 as well*". Again this appears unfair given the unequal application of the test across default and choice (see our submission 3 above).

Due to the disproportionate cost burden of the APRA Test's implementation in our sector, application of the APRA Test in Choice also distorts broader government policy including the government's response to the Quality of Advice Review[14] that prioritises delivery of more affordable and accessible advice to Australians. Additional costs for industry will need to be passed on to members - including via the cost of the professional financial advice that drives Choice member outcomes.

[14] Quality of Advice Review Final Report December 2022

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