CORNISH WEALTH MANAGEMENT

Cornish Wealth Management
Suite 6, 37 Railway Parade
Mount Lawley WA 6050

www.perthfinancialplanning.com.au

The Treasury
By email: yfys@treasury.gov.au

5 April 2024

To whom it concerns

Public Submission: Annual Superannuation Performance Test

I am an independent financial adviser who has been in the industry for over 20 years. I have a Bachelor of Commerce with a double major in economics and financial planning, an MBA (Finance) and a Graduate Diploma of Applied Corporate Governance.

I shall try and keep this simple.

I dispute the executive summary by The Treasury and their claim that the "annual superannuation performance test (the test) has improved returns for members by holding trustees to account for investment performance and encouraging continual improvement or exit of poor performing products."

The Annual Superannuation Performance Test is driving mediocrity by removing product differentiation and active asset management; it is driving super funds to index hugging. It should be discontinued. It is classic government bureaucracy at its worst - red tape with no benefit.

ASIC's Regulatory Guide 53 is quite correct when it states, "It may be misleading to imply that reliance on simple past performance figures would be a good way to select a financial product or service." They also state that it may be misleading to use "an inappropriately short time period" for past performance, which I believe APRA's one year performance test to be.

Factors which influence performance include:

1. A diversified fund's asset allocation – Some superannuation balanced funds have an allocation of 80% to growth assets whilst others have an allocation of 60%. To compare the two is misleading because in bull years the one with more growth assets will outperform, whilst in bad years the one with more defensive assets will outperform. They are not comparable and I fear that APRA's performance test will force super funds to move even more into growth assets despite the OECD research showing we are already one of the highest countries in the world for exposure to equities.

2. Growth v's value investors – Investment managers are generally classed as growth or value investors. As illustrated by this JP Morgan research, and Dimensional research, they perform at different times. This is a widely known and accepted truism. Their performance should not be compared in any one year period.

3. There is a significant body of research showing that top performing investment managers seldom continue to be top performers. As Greg Davies, head of behavioural finance at Oxford Risk, said: "Top ten lists are tempting but as the warning goes, past performance is no guarantee of future performance and our analysis bears that out." And, funds which perform strongly in one year "are not guaranteed to deliver outstanding returns" for the long-term, and advisers should look for "solutions that are right for individual clients' circumstances and preferences. That should not mean switching to chase top ten lists, nor should it mean necessarily dropping funds which have had poor years."

It is my sincere belief that rather than be expanded, the APRA performance test should be disbanded.

Yours sincerely,

Chris Cornish
Principal Financial Adviser
Authorised Representative No: 312021
Authorised Representative of CWM Perth Financial Planning