



Australian Private Equity &  
Venture Capital Association Limited

16 July 2018

Superannuation  
Productivity Commission  
Locked Bag 2, Collins Street  
East Melbourne  
VICTORIA 8003

Dear Sir/Madam,

**Superannuation: Assessing Competitiveness and Efficiency**

Thank you for providing the Australian Private Equity and Venture Capital Association Limited (AVCAL) with the opportunity to comment on the Productivity Commission's draft report (the report), *Superannuation: Assessing Competitiveness and Efficiency*, released on 29 May 2018. AVCAL has previously participated in the Productivity Commission's consultation process during this review, as we believe it is vitally important that we continue to identify opportunities to enhance the superannuation system, with the ultimate goal of benefitting existing and future retirees and our nation as a whole.

AVCAL is a national association which represents the private equity (PE) and venture capital (VC) industry. AVCAL's members comprise most of the active PE and VC firms in Australia, who together manage around \$30 billion on behalf of Australian and offshore superannuation and pension funds, sovereign wealth funds, family offices, and other investors. Amongst AVCAL's members are the key institutional investors in the asset class, including Australian superannuation funds.

As we have noted in previous submissions to the Productivity Commission, our industry's interest in the report's recommendations is premised on Australian super funds being an important source of institutional funding for the PE and VC asset class, thereby providing the capital for hundreds of high-growth companies across the economy. For some time, structural changes to the super system have resulted in significant downstream impacts for businesses that rely on institutional investment, especially by way of professional fund managers that raise capital from super funds and invest it into innovative and growing local businesses. This is why it is imperative that any changes made to the super system account for how they may impact on other parts of the financial system and the economy.

This submission specifically addresses two recommendations made in the report that are relevant to super funds that invest in our sector:

*Draft recommendation 2 – 'Best in show' shortlist for new members*

*Draft recommendation 9 – A member-friendly dashboard for all products*

**Comments on draft recommendation 2 – 'Best in show' shortlist for new members**

In our opinion, the implementation of such a shortlist would have a significant impact on super fund activity and the super system as a whole. Funds and products that are on the shortlist would have to manage an increased level of inflows that could disrupt how those funds determine and manage their asset allocation, which could ultimately impact on the levels of performance of those funds. Conversely, funds that don't have products on the shortlist may look to introduce short-term 'solutions' in order to be included in the next iteration of the shortlist by, for example,

switching to an asset mix that is driven by lower investment management fees in the short term rather than overall performance in the long run.

In creating such conditions and artificial incentives for super funds, this could inadvertently lead to funds adopting a short-term focus with the aim of being selected for the shortlist, to the detriment of the long term needs of members.

We are particularly concerned about the impact that this recommendation could have on the supply of capital to Australia's small and medium-sized enterprises and the PE and VC fund managers that invest in these enterprises, due to the effect that this could have on the ability of super funds to invest in asset classes like ours if such a shortlist is implemented.

The allocation of capital to an asset class such as PE and VC requires a long term investment horizon and approach to costs and fees, due to the necessary capital outflows in the early years of a PE/VC investment program as the PE/VC fund manager begins to look for and invest capital in suitable portfolio businesses.

But a myopic focus only on short term considerations, such as the reduction of fees and costs that are associated with implementing such programs, is one potential consequence of a 'best in show' shortlist of super funds. Ultimately, this could negatively impact on the amount of capital that is made available to high-growth Australian businesses and deprive super fund members of the strong returns that Australian PE and VC funds have historically generated over the long term.

#### **Comments on draft recommendation 9 – A member-friendly dashboard for all products**

The issue of disclosure has been an important one for a number of years within the super system debate. The 2010 Super System Review (the Cooper Review) considered this issue carefully, and noted in the Review Panel's 10 Super Policy Principles that:

*Transparency and disclosure are essential for the effective operation of the system, but are not substitutes for well-designed products that work in members' interests. Disclosure is a necessary, but not a sufficient, condition for ensuring that member interests prevail.<sup>1</sup>*

While in principle we agree with greater transparency and requirements for easy-to-understand information being provided to super members, systemic disclosure requirements should be designed with members' interests in mind, in line with the Cooper Review Panel's policy principle on disclosure. Consequently, questions arise as to how the Productivity Commission's draft recommendation of a member-friendly dashboard would be implemented and consideration should be given to carefully determining what metrics are to be included in the dashboard.

Additionally, super funds already abide by a number of disclosure requirements, with others (such as ASIC's Regulatory Guide 97 *Disclosing fees and costs in PDSs and periodic statements*, and portfolio holdings disclosure regulations) set to come into effect in the coming months and years.

In light of the above, it is reasonable to ask how useful and effective further requirements for the disclosure of information by super funds would be, and whether further disclosure burdens are in the best interests of members and superannuants. If super funds are obligated to dedicate increasing levels of resources to fulfilling their disclosure duties, to the impairment of other obligations (such as delivering strong net-of-fee returns), this may ultimately harm the interests of super fund members.

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<sup>1</sup> Super System Review: Final Report — Part One: Overview and Recommendations, 30 June 2010

## **About AVCAL and Australia's private equity and venture capital industry**

AVCAL represents PE and VC industry in Australia, which has a combined total of around \$30 billion in funds under management on behalf of domestic and overseas investors including Australian and offshore superannuation and pension funds, sovereign wealth funds, and family offices. VC and PE firms invest billions of dollars in early stage and established businesses spanning across almost every sector of our national economy. In the financial year ending 30 June 2017 alone, PE and VC invested around \$3.6 billion into Australian businesses.

An April 2018 study by Deloitte Access Economics provides some deeper insights into the economic contribution of PE including:

- In FY2016, private-equity backed businesses contributed \$43 billion in total value added to the Australian economy – equal to 2.6% of Australian GDP;
- PE-backed businesses supported 327,000 FTE jobs (172,000 directly, and 155,000 indirectly);
- In FY2016, private equity-backed businesses added almost 20,000 FTE jobs, accounting for 11% of total Australian employment growth in FY2016;
- PE-backed businesses typically delivered annual revenue growth of 20%, while boosting the size of their workforce by 24%;
- More than 85% of private-equity businesses introduced some type of process or product innovation in FY2016, far greater than the average profile of non-PE backed businesses.

We would like to thank you for the opportunity to provide a submission to the Commission in response to the draft report. Please do not hesitate to contact either me or Kosta Sinelnikov, Policy & Research Manager, on 02 8243 7000, if you would like to discuss any aspect of this submission further.

Yours sincerely,



**Yasser El-Ansary**  
Chief Executive, AVCAL