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Treasury
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Dear Sir/Madam

Superannuation Portfolio Holdings Disclosure – Regulations

We write to note our deep concerns about the proposed approach to disclosing details of directly held assets, such as property, infrastructure and private equity. Our view is that disclosure of specific asset valuations will be detrimental to members' best financial interests and to the Australian Government's efforts to source offshore funding for key infrastructure projects.

These assets have unique characteristics, contributing to their attractiveness as long term investments suited to growing members' retirement savings. Purchase decisions, management oversight, and divestment decisions about these assets all require greater due diligence and research than for most other assets, so they can be more difficult for many investors to access. However, the additional challenges can be extremely rewarding for patient and conscientious investors – justifying the premia that these investments can attract.

We noted in our submission on regulations on 25 May 2021 that "For unlisted assets such as infrastructure and private equity, the value for each unlisted asset should be disclosed as a range instead of a single dollar value. This is because providing a single value for each unlisted asset informs the market of a potential sale price for that asset, thereby limiting the price that can be achieved because buyers will anchor to the disclosed price." We include all unlisted direct assets in these comments – property, venture capital, private equity and infrastructure, etc.

We reiterate this point most strenuously, noting that disclosing an unlisted direct asset valuation has the following consequences.

1. It sets a ceiling price for potential buyers and limits upside sale results for existing assets, compared to the current approach where Australian valuations are confidential. Such limitations would not exist for global investors, wanting to sell, who could maintain confidential valuations,
2. It creates an unlevel playing field that disadvantages Australian super funds. When Australian super funds are buying new assets or more of an existing asset they hold, global investors will have valuable one-sided details of the valuations of all Australian super funds' assets, and hence how much Australian super funds may be willing to pay. Australian investors will not have similar knowledge about global investors' valuations and competitors' capacity to pay for an asset.
    - We also note that while a number of international pension funds provide extensive disclosure of portfolio holdings, this is by no means universal, nor is it as far-reaching as that proposed for Australian funds (see Attachment 1),

- In discussions, a major US pension fund, Fund A, noted that their disclosure regime, which didn't require look-through of controlled assets, nor how much they owned of an asset, had effectively cut them out of the venture capital market, as the general partners (specialist investment managers for venture capital and private equity investments) refused to participate where they were forced to disclose valuations and returns. The fund regarded this as billions of dollars of foregone investment performance (see more detail in Attachment 2), and

3. It makes Australian super funds unattractive as global partners for future investments, and may make Australian assets unattractive for global investors, who will not want confidential, private information disclosed. The respective percentage stakes held by successful investors in projects is often public knowledge, so it would not be hard to interpolate the valuation, or a close approximate, of a global investor's stake. Not being able to competitively access good quality private market investments because of Australian disclosure requirements would not only be detrimental for Australian super fund members, but the Australian government's sources of funding would become more limited. Ironically, the proposed disclosures could result in reduced financial support for the Australian venture capital sector.

One likely effect of point 3 above is the high probability for external counterparties to exclude Australian superannuation funds from these types of investment opportunities, as referenced by Fund A's experience above. As these specialist direct investments are often undertaken at low fees/costs, this may prevent superannuation funds from further lowering the cost of their investment programs, while maintaining strong returns, in line with the government's current policy objectives for the sector.

We ask that you reconsider your position on disclosing the valuations of these asset types, and permit us to report values in set bands – preferably overlapping bands - that are consistent for all super funds (e.g. 0-$50m, $40-100m, $90-300m etc) or at the very least within a range of +/- 20% of valuation.

If further discussion is needed, we would be pleased to arrange a direct conversation with the relevant Treasury team.

Yours sincerely

Damian Graham
Chief Investment Officer

Attachment 1: International pension fund disclosure regimes

Attachment 2: Case study – Major US pension fund – Fund A, venture capital and disclosure

Attachment 1: International pension fund disclosure regimes

Desktop assessment of several jurisdictions including the United States, Japan, the Republic of Korea, and the Netherlands shows that disclosure requirements for funds of similar scale to Australia's superannuation system, and larger, do not include obligations to disclose unlisted asset prices.

Table 1: Summary of foreign pension funds, country and disclosure of unlisted assets

Fund	Country	FUM $USD bn	Disclosure of individual unlisted asset prices	Source
Government Pension Investment Fund Japan	Japan	$1,689.2	No	https://www.gpif.go.jp/en/
National Pension Service Investment Management	Korea	$729.8	No	https://fund.nps.or.kr/jsp-page/fund/mcs_e/mcs_e_04_07_02.jsp
Stichting Pensionenfonds Abp	Netherlands	$597.2	No	https://www.abp.nl/english/investments/
PGGM	Netherlands	$290.0	No	https://www.pggm.nl/media/pft-mayxp/pggm-investments-annual-report-2019.pdf
New York State Common Retirement Fund	USA	$254.8	No	https://www.osc.state.ny.us/common-retirement-fund
Ontario Teachers	Canada	CAD $227.7	No	https://www.otpp.com/investments/performance/major-investments

The **Ontario Teachers Pension Plan** discloses individual investments that exceed $200 million (CAD), which nonetheless represents less than 0.1% of the total fund.

The $200 m reporting threshold is to give plans members and others greater insight into the diversity of asset base. For listed or market securities valuations and shares are shown. For direct assets, very limited information is shown:

- Property – square footage and effective ownership, not value
- Private Companies – name only.

We note the **CalPERS** Annual Investment Report 2019-20 does not show the percentage of the asset owned nor the percentage it forms of total portfolio. They are not required to look-through any fund investments (including where they own 100%).

https://www.calpers.ca.gov/docs/forms-publications/annual-investment-report-2020.pdf

This serves to highlight the value placed by international funds on protecting competitive information for highly prized assets.

Attachment 2: Case study – Major US pension fund – Fund A, venture capital and disclosure

Fund A operates under an extensive disclosure regime, which requires listing of each entity (first level – no look-through), variously reporting book value, market value and returns.

Fund A confirms that they do not hold direct assets. Instead, their investments are primarily made through investment vehicles, the values of which are disclosed.

Venture capital experience

In discussion with Fund A, they were very clear that the drive for 'transparency' has had real world consequences. The key example given was that their venture capital (VC) program effectively ceased once the disclosure regime was brought in, as VC general partners (GPs) refused to invest Fund A's money as they did not want to have their fund level returns published.

Fund A reports on investment level returns at 10 years, 5 years, etc as well as Net Asset Values. As pointed out, they have missed out on one of the greatest booms in VC and consequently left billions of dollars out of member accounts.

Look through disclosure

The second key take out from our discussion, is that we are not comparing apples with apples vis a vis the Australian superannuation regime and the Fund A experience.

Fund A does not invest directly; they invest through funds and co-investments. They aggregate pools of capital and report at the top level (no 'look through'). They noted that, while not always a critical issue, some of the top GPs who are over-subscribed, do not accept investments, as the GP regards them as 'too hard' with their disclosures versus other limited partners who don't have the same reporting requirements.

There is a real world impact on the competitiveness of investments where funds are required to disclose valuations and ownership of unique or unusual direct assets, which in turn diminishes returns to members.

Australian funds will be disadvantaged against domestic investment managers, and global managers and pension funds because of differing disclosures which impede the search for returns.