



# YFYS Review

## Technical Working Group Meeting 2 – Summary Note

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The second technical working group meeting was held on 6 October 2022. This meeting began with Treasury clarifying the objective of the performance test. The discussion then centred on benchmarks, with consideration of benchmark selection principles as well as specific benchmarking issues within the current test.

## Policy objective of the performance test

Treasury clarified that:

- The primary objective of the test is to remove underperforming products.
- Other complementary objective were to reduce fees, improve performance, encourage sector consolidation, and improve regulator and fund accountability.

Members broadly agreed with this overall policy objective, with some unintended consequences raised regarding second-order impacts on well-performing products and funds from the current test.

## Benchmark principles

Members responded well to the following principles outlined in the pre-circulated discussion note:

- Broad and representative
- Investable
  - There was recognition that unlisted assets, by definition, cannot satisfy this principle. However, if the unlisted benchmark were broadly representative of fund exposure then it was felt by most members that inclusion would be appropriate.

Additional suggestions by members on principles included:

- Index data should be transparent and free for trustees to access
- “Specified advantage” which suggests avoiding unfrozen indices
- Any benchmark changes should be made on a prospective basis – trustees and APRA shouldn’t have to rely on old data for new benchmarks.

Several members were aligned in their views on the need to ensure benchmarks are reviewed on a regular basis. This was seen to be important to:

- Encourage ongoing product innovation
- Enable to sector to be dynamic and reactive to market trends, particularly around ESG and climate-based solutions

## Benchmarks

### Unlisted assets (property and infrastructure)

- Concerns were raised regarding the current unlisted infrastructure benchmark. Some considered it to be a factor in inhibiting investment in unlisted infrastructure.
  - Raised issues included: the unfrozen nature of the index; no distinction between domestic and international.
  - Members recognised there is currently a working group at MSCI tasked with fixing the infrastructure benchmark.
  - Members suggested alternatives included EDHEC Infra 300, but there was no uniform views on whether an alternative index would be better, on balance, than the current benchmark.
- Some members mentioned a separate private equity benchmark may be prudent, however recognised this would be difficult due to the different investment categories which comprise private equity.

### Fixed income

- Members broadly proposed that more granularity in fixed income would help reduce unintended consequences of unsustainable tracking error, and potential false positives of defensive Choice products.
- Some suggestions included splitting the index into short and long duration, however there was no consensus on method to defining each duration. Some members highlighted a need to create a credit benchmark, and an inflation-linked bond benchmark.