

The Treasury
Email: YFYS@treasury.gov.au

Dear Sir / Madam

Re: Review of Your Future, Your Super Measures

ClearBridge Investments is pleased to provide input on the Exposure Draft Regulations released on April 4th, regarding the Your Future, Your Super Measures. ClearBridge Investments is a leading global equity manager currently managing approximately \$225 billion for clients worldwide, with approximately \$13 billion in Global Listed Infrastructure.

This submission addresses the choice of benchmark for the listed infrastructure sector. Over the past decade, we have thoroughly analysed available indices, written White Papers comparing the best and most-used indices, and collaborated with other key listed infrastructure participants in 2015 to develop an index that best represents the global opportunity set for listed infrastructure investors. We would be happy to share these resources with Treasury if interested.

The exposure draft proposes the continued use of the FTSE Developed Core Infrastructure 100% Hedged to AUD Net Tax (Super) Index ("International Listed Infrastructure Index"), per the proposed amendments. We believe that this choice is sub-optimal and can be improved by switching to an alternate index within the FTSE index family, the "FTSE Developed Core Infrastructure 50/50 100% Hedged to AUD Net Tax Index".

Our concerns with retaining the existing International Listed Infrastructure Index are as follows:

- The index is unrepresentative of an International Infrastructure Allocation. It is calculated on a traditional market cap weighted basis, which produces significant sector and geographic distortions not reflective of the opportunity set. For example, the index has an 83% geographic exposure to North America and only a combined 3% exposure to the core infrastructure transportation sectors of toll roads and airports.
- The index is not commonly used by specialist Listed Infrastructure Managers. Only four strategies out of 78 in the institutional database eVestment use the uncapped index as the preferred benchmark. We are concerned that selecting an index rarely used by specialist managers would remove the ability for Superannuation funds to choose between solutions, depriving members of access to high-performing listed infrastructure managers.
- There is a more suitable index available, developed by the Listed Infrastructure Industry. In 2015, a Listed Infrastructure industry group worked with FTSE aiming to structure an index that best reflected the "median manager's" view of an international listed infrastructure allocation. The result was the "FTSE Developed Core Infrastructure 50/50 100% Hedged to AUD Net Tax Index". This alternative index has more representative weightings on both geographic and sector bases, with North American exposure reduced to 66% and transportation infrastructure (excluding railroads) increased to 22%.

We recommend adopting the "FTSE Developed Core Infrastructure 50/50 100% Hedged to AUD Net Tax Index" as the benchmark for the listed infrastructure sector. This alternative index better represents the infrastructure opportunity set and would have positive implications for asset allocators and Australian superannuation holders.

Clearbridge Investments welcomes the opportunity to discuss these concerns and recommendations further.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Nick Langley', written over a faint horizontal line.

Nick Langley

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