AVCAL
Australian Private Equity &
Venture Capital Association Limited

21 August 2017

Ms Karen Chester
Deputy Chair & Commissioner
Productivity Commission
Locked Bag 2, Collins Street
East Melbourne
VICTORIA 8003

Dear Commissioner,

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 (Commission) Issues Paper, *Superannuation: Assessing Competitiveness and Efficiency*, released in July 2017.

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 $27 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.

1. Executive Summary

- AVCAL believes that in building a more efficient and competitive superannuation system, the focus of the system should be on maximising net of fee returns in order to grow retirement balances, which is ultimately to the benefit of current and future generations of Australians.
- Policy settings should not explicitly or implicitly encourage a narrow focus on low cost super products, which may distort the allocative efficiency of super fund portfolios, and is unlikely to be in the longer-term interests of super fund members.
- The PE and VC asset class has outperformed other asset classes, such as listed equities and fixed income, over the short and long term, and can boost the risk-adjusted performance of diversified portfolios of institutional investors such as superannuation funds.
- Globally, pension funds are increasingly turning to alternative asset classes such as PE in order to achieve strong investment returns and in doing so drive significant economic activity, amid a low yield environment.

2. Role of PE in the economy and super system

The PE/VC business model involves fund managers providing both capital and expertise to add value to a portfolio of investee companies. These companies may be at different stages: from a business looking for capital to expand, to distressed businesses in need of a turnaround strategy, or publicly-listed companies seeking a new direction. PE and VC firms aim to deliver strong returns to investors within a typical ten-year fund timeframe, allowing adequate time to add value across a portfolio of companies.

Economic analysis conducted by Deloitte Access Economics in 2013 showed that PE-backed businesses alone contribute more than 4% per annum to Australia's national output and support, both directly and indirectly, over 500,000 jobs across almost all sectors of the economy.

Our interest in the Commission's inquiry 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. Accordingly, we have a strong interest in ensuring that the system operates as efficiently and competitively as possible. In particular, we believe that regulatory settings must not unintentionally drive super fund investment decision-making towards a narrow focus on fees, but rather encourage a focus on value for money, the best proxy for which is net-of-fee returns. Indeed, when the MySuper reforms were introduced in 2012, a central policy objective was stated as being to deliver value for money for members, as measured by long-term net returns. Unfortunately, that objective seems to have been over-shadowed by a narrow focus on fees since the reforms were implemented.

In that regard, we note that the PE and VC industry has a strong record of outperformance for their investors, including super funds. For example, the industry benchmark Australia Private Equity & Venture Capital Index, prepared by Cambridge Associates, has achieved annual 16.65% *net of fee* returns over three years (compared to 7.51% for the S&P/ASX 300 Index), 15.69% over five years (compared to 10.83% for the S&P/ASX 300 Index), 9.36% over ten years (compared to 4.17% for the S&P/ASX 300 Index), and 11.99% over fifteen years (compared to 8.22% for the S&P/ASX 300 Index).

3. The importance of the superannuation system to Australia

At a time of sluggish domestic growth and global political uncertainty, now is a prime opportunity for the Commission to assess the super system and consider whether it is operating as efficiently and competitively as possible.

As you know, the superannuation system is an increasingly important part of Australia's financial and public policy landscape, with over $2 trillion in accumulated assets designed to fund Australians in their retirement. As the 2015 Intergenerational Report has reminded us, Australia has an ageing population which over the coming decades will place increasing pressure on funding the health system and age pension. At the same time, Australia's working population will shrink. An efficiently operating superannuation system is therefore critical to Australia's ability to meet the social and economic challenges posed by changing demographics.

More broadly, the superannuation system is also a growing pool of capital with the potential to support economic activity across many different sectors. It is therefore vital to ensure that the superannuation system remains efficient and competitive in order to ensure that resources are allocated as efficiently as possible, with the over-riding goal of generating the best possible net-of-fee returns for members.

With Australia currently attempting to transition to an innovation-focused economy, it is vital that the super system – a pool of capital larger than Australia's GDP – operates in a way which does not discourage investment into asset classes such as PE and VC which are focused on high growth companies and sectors. This is all the more crucial given that business investment in Australia remains subdued, with the March 2017 ABS data indicating a 9.8% trend (9.3% seasonally adjusted) fall in total new capital expenditure from the March 2016 quarter.

This submission addresses several issues discussed in the draft report, including how current policy settings are affecting the competitiveness and efficiency of the super system, and how unlisted asset-class benchmarking should operate. The structure of the submission is as follows:

4. Asset benchmarking

5. Wider issues – the impact of policy settings on the system's allocative efficiency

5.1 How funds compete on costs

5.2 Why PE fees are higher than other asset classes

5.3 The value-add of PE: investment returns and diversification

5.4 How the focus on fees has affected super fund allocation to Australian PE

5.5 International comparisons of PE allocations by pension funds

5.6 Other structural issues (e.g. portability)

4. Asset benchmarking

The Issues Paper notes that the Commission's preferred approach will be to draw on and aggregate fund and product-level data in order to generate estimates of long-term net returns to individual asset classes within the system (p.18). The Commission also appears to favour the approach of using listed indices as a benchmark for each asset class, while asking stakeholders how it should best assess the investment performance of unlisted investments.

While the use of listed benchmarks may be appropriate for some asset classes, it does present real challenges for certain asset classes such as PE/VC.

Firstly, the use of a listed index as a benchmark for an unlisted asset class may be inappropriate due to the nature of unlisted assets and how managers of unlisted assets operate. A listed index may, for example, not be able to replicate the investment structure that is employed by a super fund to gain exposure to PE, wherein the investment is made up of one or more of the following: investment into a PE fund, an investment through a fund-of-fund, a direct investment or co-investment (alongside a PE fund) into an unlisted business.

The leading industry benchmark for the domestic PE and VC industry is the Australia Private Equity & Venture Capital Index (Index), published by Cambridge Associates and AVCAL. The Index measures the performance of the PE and VC funds at a pooled level, whereby all capital inflows and outflows from funds participating in the index are combined to determine the aggregate level of investment returns, net of fees, being generated by those funds to their investors (e.g. super funds). For many years this has been an accepted benchmark for measuring how this asset class is performing. Further, the index's data set is comprehensive, representing the returns of the vast majority of PE and VC fund managers to investors. Accordingly, AVCAL recommends that this be the principal benchmark used for the purposes of measuring asset-class net returns for our industry.

AVCAL would be happy to answer any questions the Commission might have regarding the make-up of the Index and the nature of the underlying data.

An alternative approach suggested and implemented by at least one institutional investor member of AVCAL is benchmarking performance against the S&P/ASX Small Ordinaries Index (which tracks listed companies at a comparable size to that of PE-backed companies), which is public and investable, but including an illiquidity premium (often set at around 3%). For reference, as at 31 March 2017, Australian PE and VC funds outperformed the ASX Small Ordinaries Index by at least 10% over three, five, and ten year timeframes (according to the Index).

5. Wider issues – the impact of policy and regulatory settings on the system's allocative efficiency

5.1. How funds compete on costs

While super funds compete on a number of fronts – including returns and services to members – it is competition on costs that appears to be the particular focus of most current regulatory settings. Indeed, it is inherently easiest for funds to compete on cost given most costs can be quite accurately budgeted for in advance, as opposed to returns which are dependent on many variables, and service to members, which is inherently subjective. This is especially challenging for PE and VC given performance fees are contingent on the results of investments into a portfolio of companies (which are typically unknown at the time of commitment), over an extended time period (e.g. ten years), and are therefore difficult to predict.

The issue of minimising fees and costs in the superannuation system has been a much-publicised topic in recent years, including in the David Murray-chaired Financial System Inquiry. While we support funds trying to minimise fees and costs wherever possible, noting their fiduciary responsibilities to members, they should also be aware of any negative impact that such minimisation could have on their net returns – put at its most extreme, a super fund could seek to minimise its costs by holding purely cash and fixed income products which would be an overly conservative investment strategy that is unlikely to be in the interests of members.

In AVCAL's view, particularly in respect of investment management fees, the focus of super funds must be on value for money – that is, can the investment manager or asset class deliver higher net of fee returns than other, cheaper asset classes. Indeed, a central policy objective of the MySuper reforms was to deliver value for money for members, as measured by long-term net returns.

As noted above, over recent years, there have been a number of regulatory reforms which have had the effect of encouraging superannuation funds to compete primarily on cost, including Stronger Super reforms and the introduction of low cost MySuper default products, and the issuance by ASIC of Regulatory Guide 97 (November 2015) focused on detailed disclosure of super fund and managed investment scheme (MIS) fees and costs.

In our view, based on feedback from super funds that invest in the PE/VC asset class, these reforms have made it more difficult for funds to invest in higher cost, alternative asset classes, such as PE and VC. This is despite the fact that such asset classes have consistently produced stronger investment returns than others (see below). Accordingly, it is little surprise that the majority of the products in the $555bn My Super market have no allocation to PE/VC – denying members stronger returns, and, at an economy-wide level, denying companies the capital they need to succeed and grow.

With ASIC Regulatory Guide 97 set to be fully implemented from October 2017, it will be important to see what impact the reforms have on super fund asset allocations. Anecdotally, based on feedback from members, we understand that it is likely to lead to reduced allocations to (higher returning, higher cost) unlisted assets, given the requirement to disclose very detailed fee and cost information. It is critical that such reforms are reviewed over time to ensure that they are not leading to market-distortions, and that the policy objectives of comparability and consistency are being met.

5.2 Why PE/VC fees are higher than other asset classes

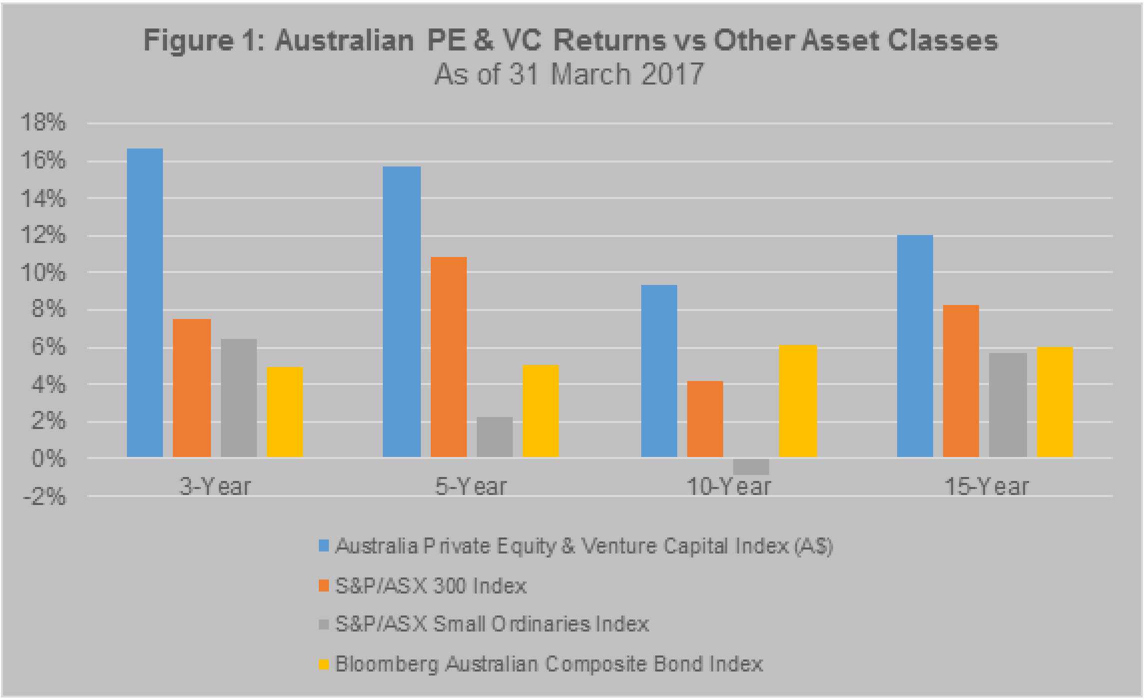
The performance of PE/VC funds and the highly 'active' management involved in the asset class needs to be taken into account when looking at the level of fees paid to fund managers, and therefore the appropriateness of policy and regulatory settings that drive super funds to focus on cost.

One key distinction between PE/VC and other asset classes is that PE/VC requires highly active management by the fund manager of the fund's portfolio of companies. This is in contrast to the passive management approach that is often seen within listed equities and other asset classes.

The returns generated by PE/VC funds are highly dependent upon the work and influence that the fund manager has on the fund's portfolio companies. Performance is intrinsically linked to the fund manager's skill and ability to drive value creation within the investments, and is a function of an intensive deal-sourcing model, and a more time-consuming and costly approach to making and exiting investments.

PE and VC is able to add value to portfolio companies through a combination of strategic advice, operational improvements, access to networks and new markets, and high quality management teams. PE/VC fund managers also deliver ongoing assistance to the management teams of their portfolio companies through participation on Boards, guidance on strategy, and, in the case of PE, through 'bolt on' acquisitions of complementary assets or businesses. These activities are not found in listed equity strategies, even those considered to be 'active' strategies.

The end result of this active management of portfolio companies is the outperformance that is generated by Australian PE/VC. The asset class has consistently performed better than other asset classes, such as listed equities and fixed income, and can provide significant value-add to super fund returns and diversification, as discussed below in section 5.3. Figure 1 demonstrates that outperformance. It should be noted that the Australia Private Equity & Venture Capital Index is calculated net-of-fees, expenses and carried interest.



Source: Cambridge Associates

While there may not always be a strong correlation between investment fees and returns for some other asset classes, this is not the case for PE/VC whereby fund managers are reliant on strong returns in order to generate performance fees (known as 'carried interest') once a hurdle rate of return is exceeded (eight per cent is typical). Accordingly, under this business model there is a strong alignment of investor and fund manager interests.

We note that domestic PE/VC fee structures have a high degree of similarity to those used by overseas PE/VC fund managers. Market practice is typically a two per cent of committed capital management fee, followed by a twenty per cent profit share contingent on achieving a hurdle rate of return. It is important to note that under this fee model, management fees are often repaid to investors in circumstances where the hurdle rate of return has been met, and that management fees will often 'step down' over the life of a closed-end fund.

Further, the complexity of the fee model poses particular difficulties for fee disclosure regulatory regimes (such as ASIC Regulatory Guide 97) which are premised on 'point in time' rather than life of fund disclosure (which is more accurate and meaningful for PE and VC given they are multi-year, closed end funds).

Indeed, over the last year, AVCAL undertook research in consultation with its super fund members that seeks to quantify the true cost of PE funds over the lifetime of a typical fund (10 years). The research shows that PE funds have different cash flow patterns, fee structures, and performance hurdles compared to other investment vehicles such as listed equities funds, and may treat certain fund costs differently. Therefore, comparisons of headline fees or statutory measures such as the Indirect Cost Ratio (ICR) or Management Expense Ratio (MER) across fund managers from different asset classes can be inconsistent, even meaningless, as well as distorting the true costs incurred by investors.

The modelling showed that net management fees paid to PE managers were lower than the 2% initial fixed rate when averaged out over a fund's typical ten-year life. In practice, total management fees add up to 0.7% p.a. of the PE fund's gross value when averaged out over ten years - as opposed to 1.5% of committed capital - given that there is typically a fee step-down as the fund matures. Similarly, performances fees ('carried interest') would account for 0.9% p.a of the PE fund's gross value (compared with 1.7% of committed capital) where a money-on-money multiple of 2.0x is achieved by the fund. When management and performance fees are combined, the total annual fees payable to the PE manager would amount to 1.6% p.a of gross fund value, as compared to 3.2% of committed capital.

Accordingly, the results of the modelling show that the average fee paid per annum across the life of a PE fund is far lower than what statutory measures such as the ICR or MER would show.

If the Commission is interested in further detail on this point, we would be happy to elaborate.

5.3 The value-add of PE to super returns and diversification

Several recent studies into the portfolio allocation decisions of institutional investors have demonstrated that a meaningful allocation to PE and VC can boost the returns generated by a well-diversified super fund.

Rice Warner modelling shows that an allocation to PE and VC can enhance (within a diversified portfolio) the risk-adjusted long term retirement outcomes of superannuation members.[1] Similarly, a study on asset allocations by Cambridge Associates[2] found that institutional investors with an asset allocation of greater than 15% to private investments such as PE and VC performed better than other institutional investors with smaller allocations.

Analysis completed by Frontier Advisors, an investment consultant to a number of Australia's largest superannuation funds, found that funds with higher alternative asset allocations posted marginally improved crediting rates (a measure of investment returns credited directly to superannuation fund members' accounts, hence taking investment management fees into account) over the 2016 financial year to June 2016. However, that result was reversed – higher alternative allocations actually dragged down crediting rates – when infrastructure and PE were stripped out of the alternatives allocation.[3] That is, PE and infrastructure contributed disproportionately more to members' crediting rates than other asset classes, thereby underlining value for money (ostensibly a key objective of the MySuper regime).

Accordingly, when assessing the allocative efficiency of the super system, including its regulatory settings, it is important to ensure that asset classes – like PE and VC – are not unfairly prejudiced by a regulatory bias towards low cost super products and investment management fees. This would not be in the interests of individual Australians, nor a federal government facing structural fiscal constraints.

5.4 How the focus on fees has affected super fund allocation to Australian PE/VC

If the objective of superannuation is to provide retirement income to substitute or supplement the Age Pension, it is imperative that superannuation regulations do not present disincentives towards achieving that outcome. In particular, it is crucial that the system is not structured in such a way as to distort its allocative efficiency.

An unintended consequence of policy and regulatory changes in recent years is an increased (and problematic) focus on highly liquid, low-cost investment products in default super funds. Since the introduction of MySuper and increased focus on low-cost superannuation portfolios, there has been a shift by many superannuation funds to cheaper liquid asset classes, such as listed equities and fixed interest, to reduce their headline fees. According to a 2015 Rice Warner study, the majority of the products in the MySuper market have no allocation to PE/VC – denying members stronger returns, and, at an economy-wide level, denying companies the capital they need to succeed and grow. (While the Rice Warner analysis has not been updated since 2015, we are not aware of any material increase in the number of MySuper products with a PE/VC allocation in the intervening period). Of those super funds that do have PE/VC allocations within their MySuper products, the asset class is approximately four to six per cent of their portfolio.

The Financial System Inquiry Final Report noted that, "In some cases, higher costs and fees may be in the interests of members. For example, alternative asset classes, such as infrastructure and other unlisted investments, tend to be more expensive to manage, but they may also diversify risks and offer higher after-fee returns for members. Submissions support this point." This is borne out by our discussion of fees and returns above.

The draft Commission report also referenced studies that point to Australian super funds having a higher exposure to alternative asset classes than other jurisdictions. As we noted in our submission to phase one of the Commission's study, this is indeed true for asset classes such as property and infrastructure. However, if this is broken down into

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[1] Rice Warner, *Implications of MySuper asset allocations for retirement outcomes*, May 2015
[2] Cambridge Associates, *The 15% Frontier*, July 2016
[3] Frontier Advisors, *Funds need to dig deeper into alternatives to get results*, June 2016

the different components of the alternatives classification, then it can be seen that Australia's super funds on average have a smaller exposure to PE/VC than pension funds in other countries (see section 5.5 below).

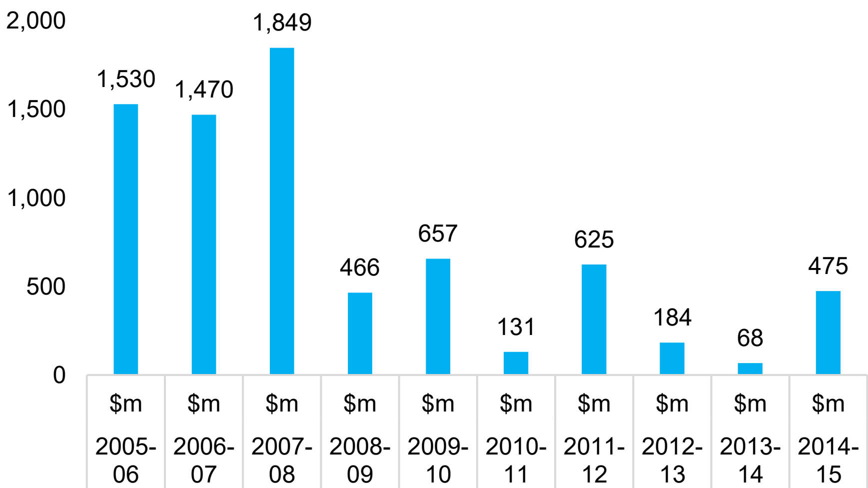
Indeed, over recent years, driven partly by the focus on fees and increasing scale encouraging larger minimum investments, Australian super funds have been allocating less and less capital to Australian PE and VC funds (see Table 1 and Figure 2 below). Meanwhile, super funds' high allocation to Australian equities, in part due to the benefits associated with franking credits, has remained steady at just over 40%. Hence, the super system has a high exposure to the Australian economy through domestic listed equity markets. This makes further exposure to the Australian economy via unlisted equities (e.g. PE) less attractive, and therefore creates an additional bias against businesses held in private ownership – which is clearly the most significant population of businesses within the economy.

Table 1: Superannuation funds held in Australian equities vs Australian PE and VC (FY06-16)

Financial Year	Total super fund assets under management (AUDm)	Total super funds held in Australian equities (AUDm)	% held in Australian equities	Total super funds committed to Australian PE and VC (AUDm)	% committed to Australian PE and VC
2005-06	860,123	359,033	42%	6,337	0.74%
2006-07	1,129,631	485,159	43%	8,520	0.75%
2007-08	1,098,944	461,511	42%	9,700	0.88%
2008-09	1,025,495	411,297	40%	9,861	0.96%
2009-10	1,149,818	476,634	41%	10,429	0.91%
2010-11	1,285,996	555,062	43%	9,352	0.73%
2011-12	1,332,145	532,607	40%	9,452	0.71%
2012-13	1,536,712	624,277	41%	9,502	0.62%
2013-14	1,749,045	723,380	41%	8,492	0.49%
2014-15	1,947,401	799,383	41%	8,392	0.43%
2015-16	2,031,354	844,768	42%	7,492	0.37%

Source: ABS 5655.0, 5678.0

Figure 2: New superannuation fund commitments to Australian PE & VC funds (A$m)



Source: ABS 5678.0

5.5 International comparisons of PE allocations by pension funds

In assessing the efficiency of Australia's superannuation system, it is important to compare features of our system with pension fund systems in other countries.

The long experience of US pension funds in the PE asset class provides a strong body of evidence on the consistency of PE returns over multiple economic cycles. An October 2016 analysis by the American Investment Council (the peak industry body for PE in the US) of over 155 US public pension funds found that PE investments outperformed all other asset classes based on median 10-year annualised returns (11.4% for PE, compared with 7.6% for public equities, 6.3% for real estate, and 5.2% for fixed income).

Australian funds provide similarly competitive returns vis-à-vis the listed markets (as outlined above), however, due to the declining participation of superannuation funds in these funds, these gains are increasingly being realised by foreign investors (such as overseas pension funds and sovereign wealth funds) rather than Australian super fund members. Indeed, in FY2016, only around 32% of investor commitments into PE and VC funds came from Australian sources, down from about half of all commitments in FY2011. While we do not yet have FY2017 data available, we expect this downward trend to continue.

Globally, there has been a shift among institutional investors towards increasing allocations to alternative assets such as PE and VC, infrastructure, real estate and hedge funds.[4] Reflecting the experience of Australia's own super funds, these alternative asset classes have contributed strongly to the performance of pension funds across the developed world. Indeed, according to the OECD, many overseas funds now have PE allocations for the first time in recent years, reflecting a recognition of the growth-generating potential of the asset class. Shifts in demographics, sluggish growth, and other challenges mean that pension funds will need to look at altering their asset allocations in order to meet future obligations. For example, Japan's Government Pension Investment Fund, considered the largest public pension fund in the world, announced in October 2014 a major change in investment policy, including alternative assets (such as PE) in its new asset mix for the first time.

Indeed, a June 2017 survey of 110 institutional investors into PE/VC (spanning Asia Pacific, Europe, and North America) (known as the Coller Capital Global PE Barometer) found that 45% of respondents intended to increase

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[4] OECD, *Annual Survey of Large Pension Funds and Public Pension Reserve Funds*, 2015

their allocations to alternative assets, with only 5% intending to decrease. Similarly, 28% of respondents intended to increase their exposure to PE specifically, compared with just 5% who are looking to decrease their commitments.

In terms of overall commitments, APRA data shows that as of March 2017, Australian super entities with more than four members allocated a total of 4% of investments to unlisted equity (which would include investments in PE and VC, as well as direct investments in unlisted companies). However, it is worth noting that the majority of super funds' PE/VC allocation is directed towards foreign fund managers, with just 0.37% of total superannuation assets (including self-managed funds) committed to Australian PE and VC funds (see Table 1 above).

This Australian experience can be compared with North America where, according to Preqin data, the annual average allocation of public pension funds to PE/VC was 7.45%, while for private pension funds it was 5.3%. Interestingly, the 2016 American Investment Council analysis of over 155 US public pension funds (referenced above) found that US public pension funds invest 9.2% of their total portfolio in PE.

Given fee structures are similar across domestic and foreign fund PE/VC managers, we understand that the key driver of this trend towards Australian super funds investing offshore is *scale* – that is, for increasingly large Australian super funds it is more efficient to gain exposure to PE via investments overseas (i.e. they can make larger investments that are more readily absorbed by larger foreign PE funds). Further, as noted above, domestic super funds already have significant exposure to the Australian economy via listed equities, therefore there are additional diversification advantages to investing offshore.

Finally, it is worth noting that Australia's own sovereign wealth fund, the Future Fund, has an allocation of 10.6% to PE and VC, at approximately $13.7b (as at 31 March 2017). Its publicly released fund performance data shows that this allocation, despite being amongst its higher-cost investment strategies, has delivered consistently strong returns which have outperformed that of Australia's super funds. Accordingly, the Future Fund stands as an example of a fund generating superior returns as – at least in part – the consequence of a structured long-term PE investment program. It could also be useful to acknowledge the differences between the Future Fund's strategy and APRA-regulated super funds insofar as the impact of key policy and regulatory settings – this is further support for the arguments we have made above.

5.6 Other structural impediments to allocative efficiency – portability

As outlined above, there are a number of structural impediments to super funds allocating capital into PE and VC, including: the increasing scale of funds necessitating larger minimum investments; and the regulatory focus on fees encouraging lower cost investment strategies. A final area of regulation that has had the effect of deterring investment into PE and VC are the super fund portability requirements.

Following Super Stream reforms, a registrable superannuation entity (RSE) licensee must complete a standard rollover as soon as practicable but not later than three business days after receiving the request containing all mandated information. A consequence of this requirement is that super funds have to carefully manage liquidity within their fund so as to ensure that they are able to meet the portability requirements. Accordingly, unlisted and illiquid assets, such as PE and VC, can consume a significant portion of their liquidity buffer given they are typically closed end funds, encouraging higher allocations to liquid assets such as cash or listed equities.

While we respect and accept the need for super fund members to be able to choose which fund they would like to be a member of, and to have that choice quickly actioned, we submit that a preferable timeframe would be thirty days. This would allow super funds to better manage their balance of liquid and illiquid assets, and would likely lead to higher allocations to higher yielding alternative asset classes like PE and VC, all the while ensuring that members' wishes are met within a reasonable timeframe. The net result would be better allocative efficiency and, based on historical performance, better returns for Australian retirees.

6. Next steps

As the Australian economy faces a period of subdued growth and global economic and political uncertainty, it is imperative that our $2 trillion superannuation system is structured as efficiently and competitively as possible. Changed market dynamics over recent years, including a regulatory focus on fees, and the rapid growth of the superannuation system, have unfortunately made investments into higher yielding asset classes like PE and VC less viable, to the detriment of both members and an economy in need of greater investment and diversification.

We believe that the Commission's inquiry offers a prime opportunity to assess the system against the core and overarching policy objective of the superannuation system: to provide income in retirement to substitute or supplement the Age Pension. It is our firm view, like that of the Commission, that this can be best achieved through a focus on net of fee returns over the long term.

We would like to thank you for the opportunity to provide a submission to the Commission in respect of its inquiry. Please do not hesitate to contact either me or Christian Gergis, Head of Policy & Research, if you would like to discuss any aspect of this submission further.

Yours sincerely,

Yasser El-Ansary
Chief Executive, AVCAL