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| **31 May 2018**  **Australian Government**  **Productivity Commission** |  |

To whom it may concern

**Re: Productivity Commission Report: Superannuation: Assessing Efficiency and Competitiveness.**

Thank you for the opportunity to make this submission.

I have been employed within financial services for many years before retiring recently from full time work. I have held numerous senior positions within major industry players and my most recent experience has been within a major Australian Superannuation fund where my responsibilities included presenting regularly to the Board of Trustees’ Investment Committee on investment performance and risk within the fund.

I continue to provide consulting services, write papers and present at industry conferences during part time retirement. My presentations and published papers relate primarily to the Australian superannuation industry and in particular to investment performance analytics.

My research and presentations now include content that is unlikely to have been permitted during my time as an employee of a superannuation fund or investment manager due to its controversial findings. It gives me pleasure (and to some extent relief) to be able to share my views openly over recent times and I am happy to share my observations with you.

I wish to highlight four key areas where my experience indicates that superannuation funds may not be acting in the best interests of their members i.e.

1. Misleading members in relation to the relative risk of member investment options
2. Inappropriate long-term investment measurement methodologies
3. Pursuit of active investment management strategies
4. Management of the fund’s single biggest expense i.e. tax

The end product of this continues to materially reduce the financial wellbeing of superannuation fund members in retirement. I provide more detail as follows.

**Misleading members in relation to the relative risk of member investment options**

Superannuation funds consistently use short term market volatility as a proxy for risk. They seem to totally miss the point that risk for a superannuation fund member is “running out of money during retirement” which may have little or no correlation with market volatility. Your draft report quite correctly makes the observation that lifecycle options may not be achieving their stated objectives for this very reason.

I refer you to a paper I published in the February 2018 edition of ASFA’s Superfunds magazine on this subject. A copy of the latest paper version of the paper is attached.

**Inappropriate long-term investment measurement methodologies**

Superannuation fund investment managers are incentivised to focus on short term investment horizons whilst their focus should be on long term horizons (greater than 50 years). Measurement of absolute short-term investment performance is subject primarily to external factors rather than the managers’ skills and is not appropriately measured within a superannuation fund. I refer you to a paper I published in the Journal of Securities Operations and Custody in 2015 a copy of which is attached.

**Pursuit of active investment management strategies**

Extensive empirical evidence substantiates the fact that active investment managers cannot beat the market. Superannuation funds consistently choose to ignore the facts and incur investment management fees on active management that can be in the region of ten times greater than for equivalent passively managed portfolios. Active management does of course mean more and more expensive investment managers and asset consultants being employed in pursuit of the holy grail of outperformance. Clearly there is a conflict of interest for those responsible for setting active investment strategies.

**Management of the fund’s single biggest expense i.e. tax**

Whilst superannuation fund trustees are required by the SIS Act to take tax consequences into account in devising their investment strategies it is abundantly clear that the clear majority pay only lip service to this requirement. The use of active investment strategies which incur far greater tax costs than passive strategies is one simple example of where the tax impact is either ignored or inadequately managed. Other examples of poor or non-existent management of tax expense include the impact of asset allocation changes, the use of derivatives and investing in overseas jurisdictions.

In conclusion it is evident to me that members’ money is consistently being spent in lining the pockets of investment managers and asset consultants at the expense of members’ comfort in retirement. I note that one major superannuation fund offers their default product with an investment expense of 1.45% per annum and a similar “no frills” indexed product at a cost of 0.06% per annum. Given the industry rule of thumb that one percent of additional fees per annum over 40 years can result in 40% less money in retirement this is a remarkable difference in fees for a service with no guarantee of long term success.

One is bound to ask why the product that charges fees 24 times greater is the default MySuper product within the fund.

Kind Regards