SUPER MEMBERS COUNCIL

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Australian Securities and Investments Commission

via email to: markets.consultation@asic.gov.au

ASIC Discussion Paper – Australia's evolving capital markets

Executive summary

Australia's $4.2 trillion pool of superannuation savings has improved the lives of working people and generated national prosperity.

Superannuation has also unequivocally supported financial system stability. With system assets equivalent to 153% of GDP,[1] it is a long-term domestic source of capital to markets that few advanced market economies possess. The retirement savings of millions of Australians are invested collectively by their super funds on their behalf with oversight from expert investment teams and trustees who are subject to fiduciary and other duties, acting rationally, at low cost, and subject to world leading external scrutiny and transparency.

Profit-to-member super funds in particular have a long track record of delivering strong net value-add for the 12 million everyday Australians who are their members. In the first three years of the APRA performance tests, profit-to-member super funds delivered a net value add of almost $18.5 billion to members' savings above market benchmarks and outperformed global peers on cost.

To continue to deliver such strong investment returns to support the retirements of millions of Australians, it is imperative that the system settings continue to support scale and its long investment horizon, which are safeguarded by the policy principles of preservation, universality and compulsion.

ASIC's review of capital markets must be balanced in its consideration of both opportunities and risks. The Super Members Council (SMC) contends the superannuation system's growth is a strength, not a risk, supporting the economy by channelling savings into investments. While the discussion paper focuses on risks, it overlooks the many strong benefits of private markets. Our submission highlights the importance of private market investments by funds on behalf of their members and the clear benefits these investments deliver, balancing this with the risks of public markets.

This submission details the longstanding investment in private markets by superannuation funds, which has delivered higher net returns and often lower risk than comparable listed asset classes. It outlines the ways in which risk is mitigated diligently, and the already rigorous regulatory oversight on superannuation trustees.

It also sets out the importance of stronger collaboration and data sharing between the key regulators to avoid duplication and support an accurate characterisation of policy issues.

About the Super Members Council

We are a strong voice advocating for the interests of more than 12 million Australians with over $1.6 trillion in retirement savings managed by profit-to-member superannuation funds. Our purpose is to protect and advance the interests of super fund members throughout their lives, advocating on their behalf to ensure superannuation policy is stable, effective, and equitable. We produce rigorous research and analysis and work with Parliamentarians and policy makers across the full breadth of Parliament.

[1] ABS 4206.0 Australian National Accounts: National Income, Expenditure, Product, Table 1 Key National Account Aggregates GDP (current prices) four quarters ending December 2024, APRA Quarterly Performance Statistics December 2024

Introduction

ASIC's discussion paper *Australia's evolving capital markets: A discussion paper on the dynamics between public and private markets* (**Discussion Paper**) takes a particular interest in how the growing significance of superannuation in Australia's economy is influencing markets, focusing on private market investments.

The Discussion Paper asserts risks associated with the scale and participation of super funds in private markets. However, it is imperative that any such discussion be balanced – and indeed should open - with a strong articulation of the many important benefits of such scale and participation. This submission conveys clear evidence of the strong benefits for millions of everyday Australians who have investments in private markets through their super funds, and strong benefits for the stability, strength and performance of Australia's national economy and financial system. This submission also illuminates notable dynamics of superannuation fund investment across private and public markets. Our focus is on APRA-regulated superannuation funds.

Profit-to-member superannuation funds have long pioneered investment in unlisted assets, particularly infrastructure. Analysis by Frontier Investors for SMC shows that approximately 16.5% of assets of APRA-regulated superannuation entities are invested in unlisted/private market assets such as property, infrastructure, private credit and private equity (in a range of 7.1% on average for Retail funds to 20.9% on average for Industry funds% - see **Attachment A).**

Investment by superannuation funds in unlisted asset classes has enabled higher returns, lower risk, reduced volatility and improved portfolio diversification. The investment strategies employed, coupled with a keen focus on costs, has enabled funds to add net value to members relative to market benchmarks – they are also global leaders in this regard. These attributes deliver strong benefits to millions of individual super fund members and the broader financial system. The role of superannuation as a powerful economic stabiliser[2] is significant – this should have been more extensively highlighted in the Discussion Paper.

Superannuation funds are subject to a rigorous regime of regulatory oversight that mitigates against risk for members and the wider economy. Risk is also moderated by the fact that superannuation funds today are predominantly defined contribution funds[3], with limited scope to assume leverage.

All investments made by the superannuation sector on behalf of their millions of members are subject to robust valuation processes as required by APRA Prudential Standard SPS 530 Investment Governance (SPS530). In the APRA regulated sector, their investment options are subject to annual performance tests and benchmarking that are not applied to any other financial market participants. The presence and participation of well-motivated and highly scrutinised super fund trustees acting as sophisticated investors for their millions of members delivers strong benefits to well-functioning Australian markets.

As the Reserve Bank of Australia (RBA) has observed, in net terms, the superannuation system has contributed to stability - and risks emerge not from the funds but rather from the risk that any adverse policy change that alters superannuation liquidity could contribute to broader financial system instability[4]. This underlines the importance of maintaining system fundamentals, notably preservation.

Changes imposing liquidity constraints would clearly harm the best financial interests of millions of Australians. New analysis by Frontier Advisers – see Attachment A: Superannuation liquidity management and investment in private markets - finds that if current preservation rules were relaxed such that superannuation funds could no longer act as long-term investors, and were no longer able to invest in unlisted assets, net returns could be lower by 0.3 - 0.6% each year.

Finally, we observe that improved data granularity would assist policy makers and regulators to better understand the potential opportunities and risks considered in the Discussion Paper. Existing data collections should be leveraged across agencies to the fullest extent possible, before additional data is required of superannuation funds – which already have significant data imposts on them. The cost burden of regulation falls on millions of everyday Australians with retirement savings in the super

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[2] Financial Stability Review September 2024 | RBA

[3] As at December 2024, 94.3% of assets in APRA regulated funds are in non-defined benefit products.

[4] RBA Assistant Governor Brad Jones (Panel participation at the 2025 International Institute of Finance (IIF) Australia Forum, Sydney 13 March 2025) https://www.rba.gov.au/speeches/2025/sp-ag-2025-03-13.html

system - and these costs have grown considerably over the past decade.

The structure of this submission is as follows:

- **Superannuation investment in private markets**: this section demonstrates the significant role of private market investment by the superannuation sector.

- **Proposals:** this section sets out several ideas to improve the assessment of system risks and benefits, and to strengthen regulatory reform and oversight.

Superannuation investment in private markets

Investment trends and returns

Super fund investment in unlisted asset classes represents approximately 16.5% of total fund assets, although this varies substantially depending on fund characteristics and investment strategy. At a system level, this has remained relatively stable over the last decade, with the largest growth being in unlisted infrastructure investment. This is mirrored in international pension investment trends.

Internationally, there has been a global shift in pension investment strategy towards unlisted assets and especially unlisted infrastructure. The Organisation for Economic Co-operation and Development (OECD) has highlighted the growing interest of pension funds in infrastructure investments due to their long-term growth potential and low correlation with traditional asset classes. The OECD recognised the benefits of investment in private market assets in a 2009 report[5], noting “infrastructure is made for the long term, and there seems to be a natural fit with the long-term liabilities of many pension plans.”

Over the long-term, funds with more illiquid investments such as unlisted infrastructure have experienced higher risk-adjusted returns, which suggests they have captured a return premium for investing in these assets. Australian private equity and venture capital (Table 1) have performed particularly well over the long term when compared to most other asset classes given the higher risk and illiquidity of private equity.

Table 1: Performance to 30 September 2024 (% p.a.)

Asset class	5 years	10 years	15 years
Australian listed equity	8.3	8.9	8.1
International listed equity	12.1	12.5	12.0
Private equity (Internal Rate of Return)	14.7	13.9	14.4

Source: LSEG Datastream, MSCI. Before tax and fees cited by Frontier Advisors (April 2025)

Global comparisons rank Australian profit-to-member funds as highly cost effective while delivering strong investment returns for their members. A 2023 study of 11 large Australian profit-to-member super funds were, on average, 11.7 basis points lower cost than their respective global peers when adjusted for size and asset mix differences. This translates to just over $1 billion in annual savings. In the same period funds’ investments met short-term international average net value-added benchmarks.[6]

Overall, profit-to-member super funds’ investment approach has a proven track record of delivering value for their members, well above the APRA performance benchmark. The sector’s outperformance delivered a net value-add of $18,5 billion to member accounts in the three years to June 2023. For a representative member with a $50,000 balance, those in profit-to-member funds saw an additional $1,165 above the benchmark return.[7]

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[5] Pension Fund Investment in Infrastructure | OECD

[6] Australian Profit-to-Member Supers are Super on Costs, CEM Benchmarking, March 2024

[7] SMC submission on Annual Superannuation Performance Test - design options consultation I April 2024

Managing risk in private markets

A key benefit of unlisted assets for superannuation funds is that they diversify a portfolio, generally leading to net returns that are more stable when these assets are included. This is especially relevant in the current economic environment and instability in public markets associated with the new US administration's trade policies. This is especially relevant in the current economic environment and associated volatility in public markets in the wake of the new US administration's trade policies. Overall, unlisted assets remain a relatively small but important proportion of superannuation fund asset investment. They do so while targeting and maintaining a prudent level of total liquidity to ensure they can pay members when required.

Super funds manage private market risk closely to ensure they can fulfil their regulatory obligations, especially during market stress events. This was evident during the March 2020 COVID period, with both APRA and the RBA noting that superannuation funds had managed liquidity well during this time. Funds were able to manage this stress event well because of robust liquidity management practices and prudential oversight. APRA Prudential Standard SPS 530 requires funds to have a Board approved liquidity management plan for each RSE within its business operations.

The one common factor between all private assets super funds invest in is that they comprise investments that are not publicly traded and therefore often considered illiquid. Frontier has observed that funds with a younger membership base and cash flows are better positioned to invest in unlisted assets than funds with an older membership base and negative cash flows.

Super's investment approach supports financial stability

The superannuation sector's growth has supported Australia's economy by helping Australians save for retirement and channelling those savings income-generating investments, including providing long-term capital to Australian businesses that would otherwise not be available or available at a cost of capital which is too high. Accordingly, there is a dual-sided benefit from private market investments by providing diversification for members portfolios whilst also diversification of capital sources for business – enabling access to capital even at times of stress and at lower cost. This reduces transmission risks from capital markets to the real economy.

Super funds pose fewer direct risks to financial stability (compared with other jurisdictions) as they have significantly stronger net cashflows, invest in longer dated assets, enjoy stable funding, and maintain large cash holdings. This makes super funds less vulnerable to risks associated with other institutional investors that can often be more highly leveraged or have other liabilities affecting liquidity, such as hedge funds.

Trustees have flexibility to invest in unlisted assets - an option not available to short-term investors where more immediate liquidity is required.

The RBA's recent Financial Stability Review (RBA 2025) noted the superannuation sector has historically supported financial stability. It also noted that policy interventions impacting on liquidity could negatively impact the sector's contribution to financial stability, underscoring the importance of preservation.

The prudential regulation of Australian superannuation supports system stability. Preservation rules require that member benefits are retained within the superannuation system until members reach retirement age, subject to limited exceptions.

APRA-regulated funds are mostly defined contribution funds, where investment gains and losses are passed directly through to end investors, and are restricted from directly taking on leverage. As long-term investors, superannuation funds are less likely than others to exacerbate market moves by selling investments in a sharp downturn. By investing countercyclically – buying assets as their prices fall – super funds can support financial stability during periods of market stress. Steady inflows of liquidity into superannuation funds (from member contributions) can lend support to this approach.

Types of investors

Super funds provide a large pool of long-term savings in the domestic economy. A key benefit of this, regardless asset class, is that super funds are Australian investors, investing on behalf of Australian super fund members, which means the assets are held by prudentially capable and well-aligned investors that are subject to APRA's strict regulatory requirements.

Millions of everyday working Australians have access to be able to invest in private markets via their superannuation – an opportunity that would otherwise be unattainable if not for the strong benefits of scale, structure and sophistication of investments made by their super fund on their behalf.

Superannuation funds are institutional investors, meaning they have scale and the capability to understand and invest in most asset classes, including private markets. They can invest into asset classes their members typically would not be able to access by themselves. Additionally, fees charged to institutional investors are substantially lower than those charged to investors outside of this group.

Super funds are highly regulated institutional investors that play a significant role in both domestic and global markets. While their importance in Australian markets is rightly emphasised, it is also essential to recognise the other types of institutional investors and the varying degrees of regulation they face.

Other institutional investors in Australian private markets include:

- International pension funds
- Insurance companies
- Sovereign wealth funds (including the Future Fund)
- Endowment funds
- Real Estate Investment Trusts
- Managed investment schemes
- Retail private credit funds
- Agriculture (and other specific private market specialist) funds
- Family offices
- Fund of funds
- Development finance institutions

Assumptions about public and private markets

The Discussion Paper places significant emphasis on perceived risks associated with the scale and participation of funds in private markets. There are many important benefits that we draw out in this section, as well as identifying risks across public and private markets for superannuation investors.

Public markets

1. **Growth in index investing**

   The rise of passive investing has significantly influenced market discipline, with both positive and negative effects including:

   - Lower investment costs for both retail and wholesale investors and reduced transaction costs from active trading.
   - Less accurate price signals due to reduced scrutiny on individual stocks by market analysts.
   - Market fluctuations with passive investment flows amplifying price movements.
   - Potential for poor allocation of capital because passive investment flows are directed based on the weight of stocks in an index and not necessarily the quality of the businesses. This can lead to large companies receiving disproportionately more investment, while smaller companies, particularly those outside of the market indices, enjoy less access to capital.
   - Reduced liquidity as passive investors tend to trade less often compared to active managers, which can reduce overall the ease of buying and selling shares within a market.
   - Increased market concentration in a limited number of stocks with the higher index weighting of these stocks potentially increasing market volatility and adversely affecting overall market sentiment.

   While passive investing offers benefits like lower costs and easy diversification, its rapid growth raises important questions about how it affects the market's efficiency and stability overall. We would encourage ASIC to consider these matters further.

2. Super funds in public markets

a) Stewardship and market discipline

In a public market that operates with large numbers of passive or non-expert investors, the role that super funds play in maintaining an active and constructive role in market discipline becomes more important.

Superannuation funds have a fiduciary duty to act in the best financial interests of their members and make decisions aimed at safeguarding their members' long-term interests. They are accountable via objective and transparent performance benchmarking.

Through their significant market presence, super funds play a key role in enforcing market discipline and promoting better corporate practices. Super funds actively engage with the boards and management of the companies they invest in to improve governance, policies, and practices.

Funds recognise the important role they play in addressing broader market inefficiencies. In recent years, poor corporate governance at some ASX-listed companies has led to significant shareholder value destruction. Super funds, through their interventions, seek to prevent such occurrences by advocating for responsible corporate behaviour.

Recent examples of poor corporate governance which have led to the significant destruction of shareholder value include events at companies like Wisetech and MinRes (Mineral Resources). This prompted AustralianSuper and HESTA to engage with these companies, leading to divestment or governance reforms when their corporate practices were deemed misaligned with long-term shareholder value.

b) Super funds provide capital to the ASX

Super funds play a critical role in supporting Australian companies by investing in the ASX. They provide stable, long-term capital that helps good companies remain publicly traded, even during challenges like takeover attempts.

For instance, AustralianSuper played a role in the outcome of Brookfield's $20 billion takeover bid for Origin Energy as the largest shareholder. Believing the offer undervalued Origin's long-term potential, AustralianSuper opposed the bid. Their intervention ensured Origin remained a publicly listed company, allowing it to continue its leadership in renewable energy and its contributions to Australia's energy transition.

This highlights how funds not only safeguard their members' investments but also promote the broader stability and growth of Australian companies and the economy.

Information asymmetry

The Discussion Paper suggests public markets are perfectly transparent while information asymmetries exist in private markets, which disadvantages retail investors. We would contend that it is not uncommon for information asymmetries to exist across both public and private markets – this is a global phenomenon not unique to Australia which is driven mostly by market participants' differing levels of access to sophisticated analysis and expertise, and their capacity to absorb such volumes of information in a timely way. Similarly, investments opportunities flowing from initial public offerings are often unevenly accessible across market participants.

Valuations

The Discussion Paper makes the proposition that public markets are better at evaluating the long-term value of assets. We challenge that assertion.

Large institutional investors (including super funds) often have significant knowledge about the private equity assets they own - including details about the costs, value, and performance of assets – which are provided in regular updates to investors and upon request.

In addition, super funds holding unlisted assets must establish robust valuation governance frameworks, including regular valuations and documented procedures, to accurately reflect market values. Valuation processes must be independent and objective ensuring potential conflicts are recognised and managed. APRA Prudential Standard SPS 530 mandates that super funds specify the frequency in which they will conduct valuations, with additional valuations during periods of market volatility or significant policy changes.

We consider robust valuation processes to be critical to supporting the integrity and efficiency of private markets, and fundamental in the ability of funds to ensure they continue to act in the best financial interest of their members by maintaining reliable unit prices for their investment options. Additional out of cycle valuations are important in this context if material, however despite much commentary, the likelihood a single asset or group of assets with similar characteristics could lead to investment option arbitrage is likely overplayed given the small or insignificant weightings of such assets in diversified portfolios.

It should be noted current Portfolio Holdings Disclosures (PHD) provide an appropriate balance for disclosure of private market assets in bands so as not to undermine the capacity of funds to achieve the best price for members if sold, whilst also allowing detailed prudential review of underlying valuations if required.

We would also strongly caution against the view that private market valuations should automatically move in step with publicly listed equivalents or proxies. Public markets often exhibit significant price volatility that doesn't reflect the underlying value of an asset given the powerful effect of sentiment and irrational investor behaviour – this can be on both the upside or downside. Valuations should quite properly reflect the orderly transaction of an asset between and informed buyer and seller taking into account the assets characteristics, cashflows, liabilities and informed by comparable transactions where available. Further underlining this point is that public to private transactions rarely occur at listed value – they often occur at a premium.

Proposals

ASIC should consider private markets at the asset-class level

Private markets are comprised of several asset classes, each with their own unique attributes and risks. However, the Discussion Paper's contemplation of private markets appears from one broad category without adequate disaggregation of the important component parts.

The Discussion Paper makes generalisations about private markets but focusses almost solely on the super sector. Some of the generalisations made do not carry over to the super sector or may only apply to specific asset types.

We have sought to segment this diverse asset class into its different subclasses in Appendix 1 This important distinction of asset classes within the grouping of private markets is essential to engaging in an appropriate nuanced discussion. We have sought to stick to the key asset classes, but these could be further broken down, for example private agriculture investment.

In addition to superannuation funds, different types of investors are active in these asset classes. Different investors are subject to different levels of disclosure, investor obligations, and regulatory oversight. Some of these investors include: international pension funds, family offices, insurance companies, endowment funds, Real Estate Investment Trusts (REITs), managed investment schemes, retail private credit funds, and fund of funds who are active in private markets.

Data collection

The Discussion Paper notes that regulatory agencies currently have limited access to information about private markets that is recurring, comprehensive and standardised. We accept that ASIC (and other regulators) require reasonable access to data to enable them to better understand the size of the market, market participants and the relative risks across each of the classes of private assets.

Visibility should be a priority for ASIC, and we strongly assert that ASIC should not intervene until it has adequate visibility of the market fundamentals.

Should ASIC and other regulators conclude that additional reporting and disclosures are needed, the scale and granularity of any new requirements should be carefully calibrated to strike an appropriate balance between the public benefits of obtaining more information and the costs of providing it.

We also note that APRA regulated super funds already report this to APRA on a quarterly basis as required under Reporting Standard SRS 550.0 Asset Allocation, including look-through reporting. SMC notes there are opportunities for ASIC to leverage this data, as well as APRA's past and in-train work on liquidity, governance, valuations and system resilience in the first instance.

Imposing greater data reporting obligations on the superannuation sector - which is already heavily regulated and transparent through APRA data reporting as well as other public disclosures - prior to undertaking this would be premature, potentially duplicative and misguided.

Regulator duplication

The Discussion Paper underscores key areas such as liquidity, governance, valuations, and system resilience, which have also been a significant focus for APRA in recent years. The RBA has also highlighted changes in financial intermediation internationally and initiated work to better understand risks associated with a systemic liquidity shock.

It is crucial for regulators to collaborate to prevent any potential duplication of efforts by funds, noting the costs of such duplication would be borne by millions of everyday Australians.

Appendix 1: Private markets by asset class

Asset class	Description	Features (Benefits)	Risks	Types of institutional investors
1. **Unlisted Infrastructure**	Infrastructure assets include diverse subsectors with common characteristics such as long-term, stable cash flows driven by regulation, long-term contracts, or inelastic demand. Examples include toll roads, seaports, airports, electricity networks, and water assets.	Reliable cash flows, monopoly-like positioning, inelastic demand.	Regulatory changes, economic downturns reducing usage, high initial capital investment.	Super funds International pension funds Insurance companies Sovereign wealth funds Infrastructure funds Development finance institutions (DFIs) Managed investment schemes
2. **Unlisted Property**	Core real estate includes established office buildings, retail centres, or industrial properties. Key drivers are lease terms, leasing/re-leasing activity, rent escalations, and maintenance costs.	Steady income from lease contracts, capital appreciation in property value.	Market downturns, tenant defaults, capital intensive maintenance.	Super funds International pension funds Insurance companies Sovereign wealth funds Endowment funds Real Estate Investment Trusts (REITs) Managed investment schemes
3. **Private Equity** Subcategories include:	Investment in private companies to boost their value and performance, often through specific strategies like leveraged buyouts, growth equity, turnaround strategies, or venture capital.	High return potential, active involvement in improving operations.	Illiquidity, operational risks in portfolio companies, duration to profitability	Super funds International pension funds Endowment funds Sovereign wealth funds Family offices Fund of funds
3 a) Venture Capital	Investments in early-stage or growing companies with strong long-term growth potential.	High growth prospects, opportunity to back innovation.	High failure rate of startups, long investment horizon.	
3 b) Buyouts	Acquiring controlling stakes in established companies to improve performance before selling them for a profit, often funded through leveraged buyouts (LBOs).	Strategic control, potential for operational efficiencies.	Heavy reliance on debt financing, exposure to business restructuring challenges.	
3 c) Other Private Equity	Raising new equity capital for purposes like acquisitions or capital structure improvements.	Funds strategic growth opportunities.	Dilution of ownership, market dependence.	

Asset class	Description	Features (Benefits)	Risks	Types of institutional investors
4. **Private Capital/Credit**	Involves non-bank lending through private debt, offering lower volatility than equity. Strategies include senior direct lending, subordinated debt, asset-based lending, opportunistic credit, and distressed credit.	Regular income from higher yields, reduced sensitivity to interest rate changes in floating rate setups.	Credit defaults, illiquidity, complex investment structures.	Super funds International pension funds Insurance companies Sovereign wealth funds Asset managers Retail private credit funds

Attachment A: Superannuation liquidity management and investment in private markets - Frontier Advisors, May 2025

The Report by Frontier Advisors examines why super fund invest in private markets, the benefits and risks associated with investing in unlisted assets and how these investments affect member outcomes. It offers a thorough analysis and presents well-founded evidence on how changes to preservation rules can adversely influence net returns for members and financial system stability.