

Section 47F

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**From:** Section 47F  
**Sent:** Monday, 27 March 2023 3:34 PM  
**To:** Section 47F  
**Cc:** Section 47F  
**Subject:** RE: APRA-Regulated Funds - Unlisted Allocations [SEC=OFFICIAL]

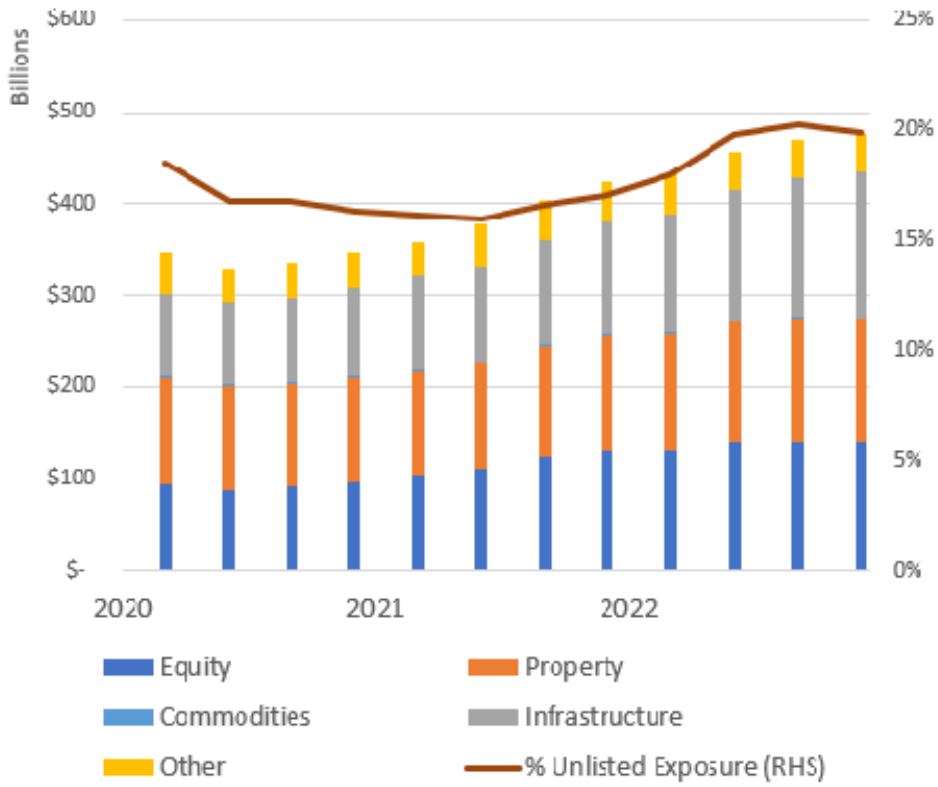
**Security Classification:**  
OFFICIAL

Hi Section 47F

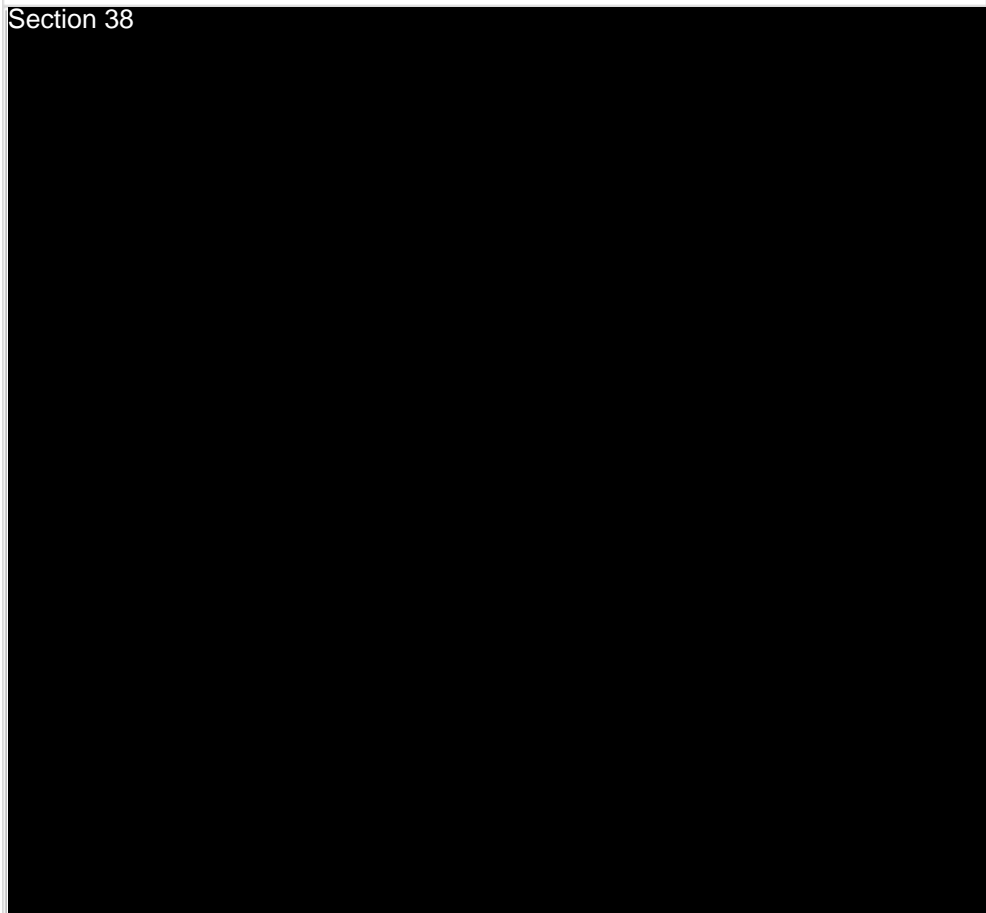
I have a few charts below for you – thanks for Section 22 for giving me some direction. It was certainly a good exercise to find and extract all the correct data.

- Unlisted assets have increase in \$ terms from 2020 and also as a proportion of total FUM of APRA-regulated funds – which sits at 19.9% as at Dec 2022.
- When broken down into RSEL type, unsurprisingly retail funds have a much lower % of FUM in unlisted assets.
- Section 38

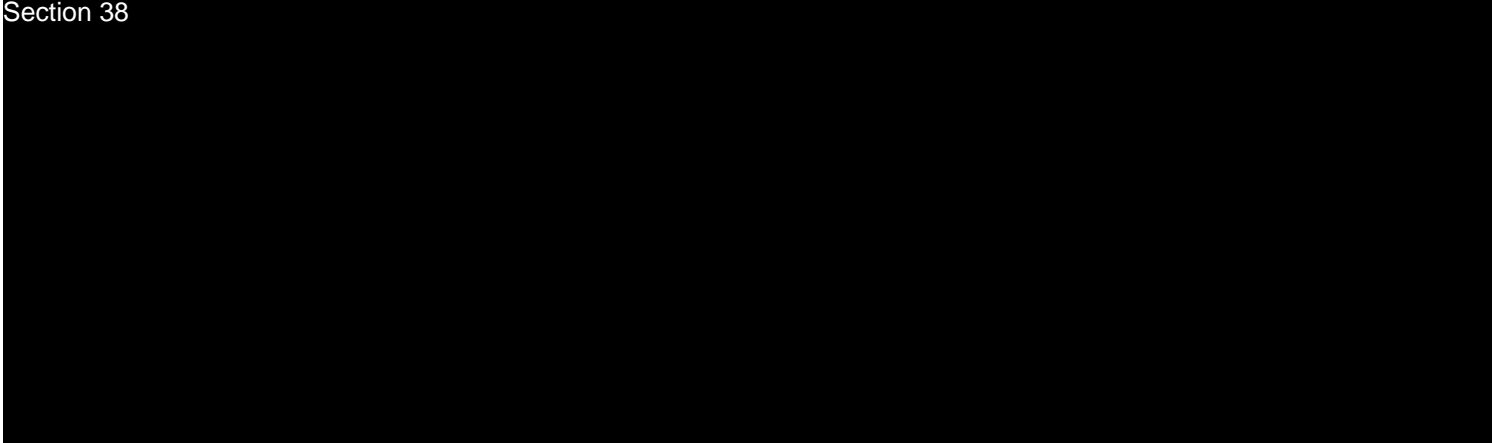
Unlisted Assets - APRA-regulated funds - March 2020 to Dec 2022



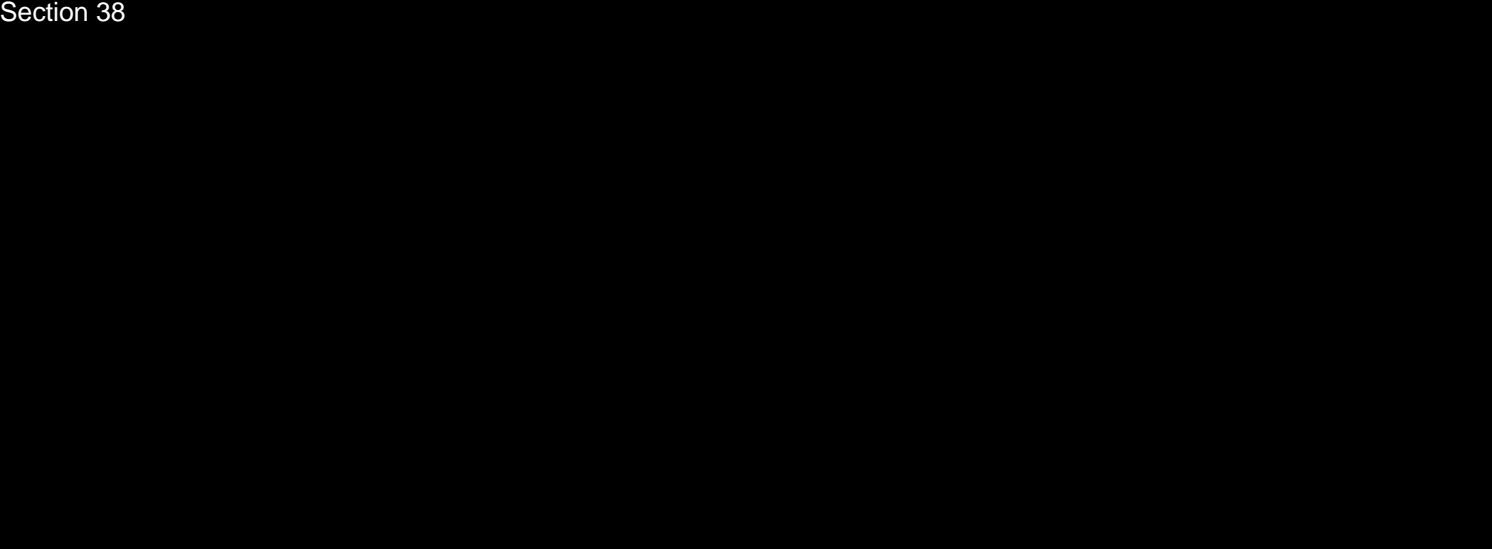
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Section 38



Section 38

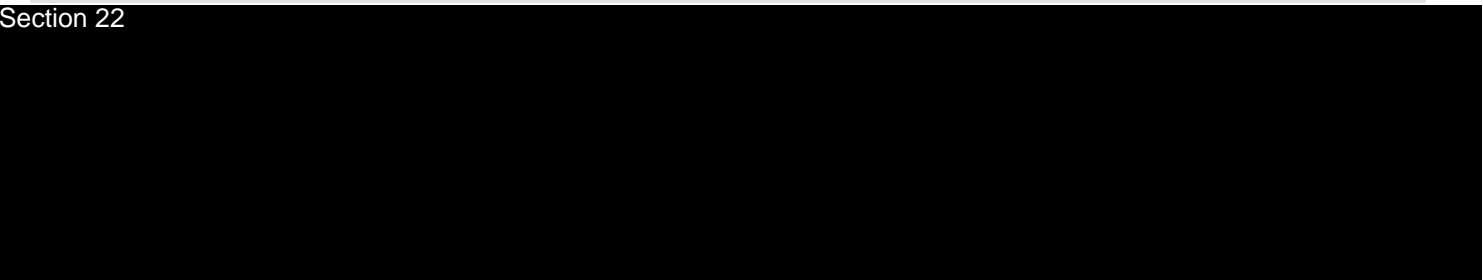


Thanks and let me know if you need anything else.

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Section 22



Section 22

From: Section 47F  
Sent: Wednesday, 22 March 2023 8:57 PM  
To: Section 47F  
Subject: article

**EXTERNAL EMAIL:** Do not click any links or open any attachments unless you trust the sender and know the content is safe.

Dear Section 47F

Sorry for the delay; here is the article (from AFR) . I highlighted the sentence

Kind regards

Section 47F

## APRA targets valuations of unlisted superannuation assets

[James Evers](#) and [Jonathan Shapiro](#)

Updated Feb 1, 2023 – 8.00pm, first published at 6.30pm

The prudential regulator wants to lift the governance standards of superannuation funds to insist on more timely revaluations of unlisted assets to protect new members from buying in at artificially high prices.

Former treasurer and Future Fund chairman Peter Costello said this “was a very important issue” and super funds must find a balance between providing immediate access to member funds and publishing accurate, audited unit prices.



Industry super funds own a large proportion of unlisted assets, including property like this \$1 billion Cbus office tower on Melbourne’s Bourke Street.

He said some super funds could be “trading a situation where they’re not fully informed” because they do not have the latest valuations from auditors on the value of investments.

The Australian Prudential Regulation Authority has been pushing the super industry to improve the frequency and methodology used in valuing its \$650 billion of unlisted assets, including private technology companies and commercial property.

Industry super funds have a higher weighting towards unlisted assets; some such as Hostplus have nearly 50 per cent of their default super option invested in assets such as property, infrastructure, private equity and venture capital.

The prudential regulator took a series of targeted actions against funds last year as [questions were raised about opaque and potentially over-inflated valuations of high-flying private tech companies such as Canva](#).

APRA chairman John Lonsdale said lifting standards of governance among superannuation fund trustees – including on issues such as the valuations of illiquid assets and liquidity – would be a key focus for his supervisors this year.



Future Fund chairman Peter Costello. *Eamon Gallagher*

“We are going to improve investment governance of super, on stress testing, valuation and liquidity management,” [Mr Lonsdale told \*The Australian Financial Review\* in his first media interview on Monday.](#)

Mr Costello said problems for super funds in valuing illiquid assets stemmed from their provision of a daily “unit price”, allowing new and old members to trade in and out of a fund at a market valuation.

“Super funds ... strike a daily price, and there’ll be people trading in and out of the various allocations in their fund on a daily basis, long before you would have got an audited result” of valuations of unlisted investments, he said.

“We think they’re trading a situation where they’re not fully informed because they don’t have those audited results.

“A super fund would legitimately say, ‘We can’t just freeze our funds for six or eight weeks because people are retiring. People are taking money out’,” Mr Costello said.

## **‘Excellence in governance is the ticket’**

“That question is about rebalancing the immediacy of striking a price against the verification of that price. Because we don’t have to strike a daily price, we can afford to be careful and audited.”

The Future Fund delivered a 3.7 per cent loss for 2022 and [warned that financial markets were underestimating the risk of a global recession.](#)

In its investigation of valuation standards, APRA could examine potential conflicts of interest if new investors buy into a fund with an artificially inflated valuation, and are hence penalised on the cost of new units, as retirees withdrawing money reap the advantages of full valuations.

There are also questions about incentives for fund managers in super funds, who are paid more when they deliver high returns. This could create incentives to resist dragging down valuations of unlisted assets when equivalent public indexes fall. Others point to anticompetitive conduct when chasing new members.

“Overvalued assets means members coming in are treated poorly and at the expense of others because performance is being overstated, which obviously in a competitive marketplace can create issues,” said David Bell, executive director of The Conexus Institute, a think tank focused on retirement income.



APRA chairman John Lonsdale.

“The message from APRA is we want to see you meet best practice, not tick a box on standards. Excellence in governance is the ticket to using unlisted assets in portfolios and APRA is looking to set the industry up to meet a very high standard.”

In a draft practice guide on super fund investment governance issued in November, APRA said it expected super licensees to “consider the potential impacts on beneficiaries of selling assets at a stale price”.

It also wants more focus on the “impact on portfolio quality of an increasing proportion of illiquid assets and the cost of restoring the portfolio quality” if it is hit with a market correction.

APRA is consulting on the guide, known as SPG530, and industry submissions are due on March 17.

## **‘Don’t wait for APRA to blow the whistle’**



APRA deputy chairman Margaret Cole. *Oscar Colman*

In a speech on Monday, the APRA member in charge of super, Margaret Cole, said: “We will continue our scrutiny of business models that are challenged in delivering long-term sustainable, competitive outcomes for members.”

She urged funds to adopt a proactive approach and said “don’t wait for APRA to blow the referee whistle”.

About 25 per cent, or roughly \$650 billion, of the \$2.6 billion in APRA-regulated and government superannuation assets is held in unlisted assets. This includes private equity and venture capital, private technology companies, property and infrastructure.

The holdings have been a key driver of super funds’ outperformance over recent periods, as public markets bear the full brunt of rising interest rates and falling asset prices. Super funds with the heaviest exposure to unlisted assets were among the top performers last year.

But APRA wants funds to demonstrate how the valuation methodology of investments that do not have a quoted market price is determined.

It has called on licensees to undertake valuations on at least a quarterly basis, and prove oversight by internal audit and external audit teams “reviewing the control environment supporting the valuation process, assessing the availability and reliability of information or evidence used in the valuation process, and determining the validity of assumptions and estimated values used in undertaking a valuation”.

## **‘Operational and structural independence’**

APRA also wants “operational and structural independence between the persons responsible for investment decision-making and those responsible for undertaking the valuation of investments,” it said in the draft guidance.

The focus follows an APRA review last year, which found that unlisted asset revaluation frameworks were inadequate, there was limited board engagement with valuations, and some super funds had an over-reliance on external parties, including fund managers and asset consultants.



[The Australian Financial Review reported last month](#) that unlisted property funds recorded gains of nearly 19 per cent in the first nine months of 2022, in stark contrast to the nearly 20 per cent drop in the valuation of listed property funds, based on figures from the Property Council of Australia.

Super funds are being urged to engage in the APRA consultation or risk more heavy-handed measures if a consensus cannot be reached.

Mr Bell points to the “Your Future, Your Super” reforms which were introduced after the industry could not agree on ways to measure fund performance, triggering a regulated performance test, that has led to many complaints.

“There is an opportunity for industry to collaborate and clean up on the issue and make sure consumer confidence is really high,” he said. “If that doesn’t happen, you will end up with explicit standards and processes coming in which may not be to the taste of industry.”

Ms Cole delivered a similar message in her speech hosted by Conexus Financial on Monday.

“When it comes to delivering the best outcomes for your members, you know best what needs to be done,” she said.