20 March 2024

General Manager
Macro and Industry Insights
Australian Prudential Regulation Authority
GPO Box 9836
SYDNEY NSW 2001

Email: superdatatransformation@apra.gov.au

Dear Sir/Madam,

Submission to APRA Discussion Paper: Superannuation Data Transformation Project Phase 2 - Investments

We are both actuaries with many years of experience in superannuation, investments and life insurance. Our short CV's are included below.

We are supportive of APRA'S mission through the Superannuation Data Transformation (SDT) project to ensure all stakeholders have access to high quality and consistent superannuation data to assess industry performance and the outcome delivered to superannuation members.

Our specific comments in this submission relate to two changes which we believe would enhance the usefulness and appropriateness of reported APRA investment information. We recommend the following two changes:

1) Change the SRS 550 (and SRS 533) asset class types from "Equity" and "Property" to "Ordinary Shares", "Hybrids", "Listed Property" and "Direct Property". This recognises long-standing and widely accepted terminology in the marketplace in Australia (for both superannuation and investment).
2) Change the SRF 550 Appendix A asset class hierarchy to separately identify floating rate investments from fixed coupon investments. This is to recognise the opposite market reaction of these two types of investments and to avoid misleading representation by blending them into one.

Details about both these matters are set out in the two appendices to this submission.

Should you wish to discuss this submission or require further information please do not hesitate to contact us.

Yours sincerely,

[redacted]

Colin Grenfell
Owner
Austmod Investment Simulation
Phone: [redacted]
Email: [redacted]

[redacted]

Cary Helenius
Director
Equity Risk Management Pty Ltd
Phone: [redacted]
Email: [redacted]

APPENDIX A – “Equity” and “Property”

SRS 550 (and SRS 533) are based on the following asset class types:

Equity	Represents an ownership interest in a business, trust or partnership. Includes: common shares, preference shares, listed investment companies and units. Excludes: units in property trusts, units in infrastructure trusts.
Property	Represents an investment in real estate where the earnings and capital value are dependent on cash flows generated by the property through sale or rental income.

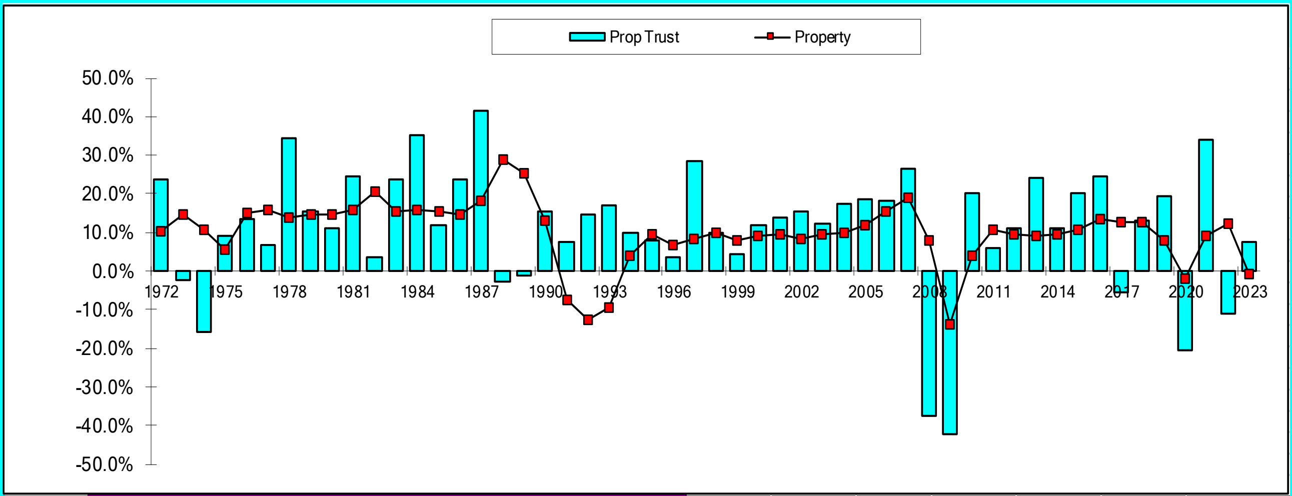
Many investors, particularly those with a European background, would interpret "Equity" to include property. Both the superannuation and the investment/wealth management industries seldom use the term “equity”. The long-standing preferred terminology is “shares”. Hence for clarity and investment performance and superannuation reporting reasons, we suggest that the terminology "Equity" be replaced with something referencing “Shares”.

Also “Property” comprises at least two very different asset class types, namely listed property and unlisted (or “direct”) property. Listed property investments are usually held within trust structures that have geared underlying property exposures and are split into units which are traded on the stock exchange. Their value is determined by market prices and supported by irregular valuations of the underlying properties.

Unlisted property investments may also be held in trusts but are less likely to be geared and the unlisted units have significantly less liquidity than exchange traded units. Their unit prices are determined by irregular valuations of the underlying properties. Direct property investments are not usually held in trusts and they are less liquid, with valuations dependent upon the property-related transactions (rental income and property sales). They are usually not geared and have property valuations occurring over rolling quarterly, six monthly or yearly periods.

The long-standing lack of a clear recognition of these differing features possibly, in part, lead to the original unsatisfactory APRA Heatmap classifications. More recently the Heatmap classifications have been changed to differentiate listed and unlisted property.

The following chart from Colin Grenfell’s *Austmod* investment performance database shows the very different historical 52-year annual returns (before tax and fees) to 30 June 2023 for these two asset classes. The historical rank cross-correlation (“RCC”) between the two asset classes is only 20%. Both the superannuation and the investment/wealth management industries often aggregate Listed Property investments with other Australian Shares - the historical rank cross-correlation (“RCC”) between Listed Property investments and other Australian Shares is much higher, namely 58%.



SECTOR	52 year HISTORY to		30-Jun-23		LONG TERM ESTIMATES			
P Trusts	Mean 11.2%	Stdev 16.0%	Skew -203%	RCC	Mean 9.3%	Stdev 13.7%	Skew -233%	RCC
Direct P	Mean 10.0%	Stdev 8.1%	Skew -134%	0.20	Mean 7.2%	Stdev 5.9%	Skew -127%	0.19

Further, the current APRA classifications were introduced many years ago before listed property investments became wide-spread and before hybrid investments were even thought of. Equity investments are commonly thought of as including all ASX listed investments. Because of their different and distinct investment characteristics, it would be useful to distinguish

(i) ASX listed property trusts,

(ii) ASX listed preference shares and

(iii) ASX listed hybrids

from other ASX listed ‘equity’ investments.

The following new asset class types, based on, and similar to, the ASX “Investment Option” classifications at *Investors.asx.com.au,* are therefore recommended:

Ordinary Shares (listed and unlisted)	Represents an ownership interest in a business, trust or partnership. Includes: common shares, listed investment companies and units. Excludes: preference shares, units in property trusts and units in infrastructure trusts.
Listed Property Trusts	Listed investment vehicles provide exposure to property assets such as office towers, shopping malls, industrial buildings – even hotels and cinemas. Like managed funds, they are pooled investments overseen by a professional manager. And because they are listed on the ASX, you can buy and sell them through your broker, in the same way as shares in real estate where the earnings and capital value are dependent on cash flows generated by the property through sale or rental income.
Hybrids	A 'Hybrid security' is a generic term used to describe a security that combines elements of debt securities (eg bonds) and equity securities (eg shares). Hybrid securities typically promise to pay a rate of return (fixed or floating) until a certain date, in the same way a bond does. However, they also have share-like features that can mean they may provide a higher rate of return than bonds. This is due to the higher inherent risk of these share-like features. These features may include reduced certainty as to the timing and amount of income generated from holding the securities, the potential for the securities to be converted into equity or early repayment at a time not beneficial to the holder, and the holder being subordinate to other creditors in the event of insolvency.
Direct Property (and unlisted Property Funds)	Represents an investment in real estate where the earnings and capital value are dependent on cash flows generated by the property through sale or rental income. Excludes: units in listed property trusts and units in infrastructure trusts.

APPENDIX B – Floating rate investments

When interest rates rise, holders of floating rate securities (be they debentures, notes, credit, hybrid or preference shares) will benefit from increases in future interest income. But when interest rates rise, the holders of fixed coupon securities suffer from market value capital depreciation. When interest rates fall, the converses apply. Consumers could therefore be misled when floating rate securities and fixed coupon securities are grouped together in any categorisation of investments or asset allocations.

Appendix A of SRF 550 sets out the current APRA asset class hierarchy. For government "credit/ fixed income" the "Asset class characteristic 2" column has separate entries for coupon and inflation-linked bonds. But for non-government "credit/ fixed income" (or "private debt") the "Asset class characteristic 2" column does NOT have separate entries for coupon and floating rate securities.

To gauge the materiality of floating rate securities we considered the following:

https://www.firstlinks.com.au/asx-listed-bonds-and-hybrids

It details the ASX listed bonds and hybrids. It includes the issue size for each security and also the current price. Most of the prices are between 98 and 105 so the total current market capitalisation will be very close to the total issue size. The total issue size for floating rate securities is $42.96 billion. It may not include all fixed rate convertible notes, but we understand that all major notes are listed. We were also able to get a similar listing from Ord Minnett sharebrokers. The list is almost identical to the above.

From the above we concluded that the market capitalisation of floating rate securities is approximately $43 billion. This seems to be reasonably significant when judged against:

(a) APRA statistics which show that Super funds with more than four members had $226 billion invested in Australian fixed income at 30 June 2022, and

(b) there is $38 billion of Australian Treasury indexed bonds on issue. These get separately identified in the APRA asset allocation.

Based on Appendix A recommendations, the new asset class type "Hybrids" would include convertible notes, preference shares and capital notes. For each of these we recommend that the "Asset class characteristic 2" column should have separate entries for fixed coupon and for floating rate securities.

Alternatively, with the current asset class types, we recommend that:

(a) for non-government "credit/ fixed income" the "Asset class characteristic 2" column should have separate entries for fixed coupon and floating rate securities, and

(b) for "equity" investments" the "Asset class characteristic 2" column should have separate entries for fixed coupon preference shares and for floating rate preference shares.

Colin Grenfell

Colin Grenfell is a retired actuary and superannuation consultant. He is a member and former Convenor of the Actuaries Institute Superannuation Projections and Disclosure (SPD) subcommittee. In 2018 he was awarded the Institute's Spirit of Volunteering Award. Colin has a long-standing passion for stochastic and historical investment simulation modelling. He is the designer and owner of the *Austmod* investment simulation model. Prior to retirement, Colin held a variety of superannuation, actuarial and investment roles with National Mutual Life. During the past 20 years he has held various superannuation trustee directorships and was a part-time member of the Superannuation Complaints Tribunal (SCT).

Cary Helenius

Cary Helenius is a qualified actuary with more than 35 years of experience with a career spanning education, life insurance, superannuation, equity research, investment banking and strategic investor relations. He was formerly an equity partner with JB Were ranking No. 1 in Insurance Market research and an Executive Director of investment banking with Goldman Sachs JB Were. He is ongoing as a director and co-founder of Lifetime Income Pty Ltd which focuses on consulting and research into the development of innovative, wholistic retirement products, and a director and founder of Equity Risk Management Pty Ltd which provides equity market strategic consulting advice.