Dear Sir/Madam,

By way of background, Allen Partners is a Sydney based placement agent firm and we advise leading global asset managers on raising capital from the Australian superannuation system.
Please see below a submission to question **2 – Does the proposed objective meet your understanding of the objective of the superannuation system in Australia?**

The key purpose of super (in our opinion) is to achieve the best possible risk-adjusted returns for members over the long term. While value for money should be a factor, this should be subordinate to the primary objective of maximising members' balances. In this regard, we believe that the inclusion of performance fees in the calculation of MER creates a perverse inventive to avoid high performing asset managers and investments due to the impact on MER by having to pay performance fees. As a result, some of the world's best asset managers are unbale to manager capital for Australian super funds.

I thought you might be interested in this perspective below on the UK pension system and removal of performance fees from the calculation of total fees or cost. Particularly relevant re RG97 and the somewhat perverse incentive to be biased against performance fees – i.e. performance fees put upward pressure on MER (management expense ratio) whereas these are generally a reflection of substantial outperformance and alpha generation by quality managers benefitting all super fund members on a net return basis.

UK Government policy has for several years been looking at ways to help DC schemes develop more diverse portfolios and build internal capacity to manage the scale they will soon achieve (whether through consolidation or the structural shift in the UK market towards DC over DB). In late January 2023 the UK Government confirmed that performance fees will be exempt from the scope of the Charge Cap from April. This policy change has been under consideration for over a year and the confirmation was broadly expected.

The exemption itself applies to 'specified performance fees' and is accompanied by statutory guidance setting out what DC schemes should consider when determining whether a performance fee can be excluded under the exemption. The statutory guidance is principles based rather than prescriptive. Government is seeking to provide a steer to DC schemes about things they should consider before entering into performance fee arrangements to help ensure any fee arrangements promote a good alignment of interest between the investor and the asset manager.

As well as the guidance, the Bank of England, HMT, FCA and industry backed Productive Finance Working Group has also prepared a guide to support DC scheme thinking about investing in illiquid assets. This includes a section on assessing performance fees which serves a companion piece to the statutory guidance and reinforces many of the same messages.

While much commentary around the exemption relates to making it easier for DC schemes to invest in start-ups, VC, PE, sustainable infrastructure, affordable housing, etc. the exemption applies to any assets or investment strategy (e.g. hedge funds). DC schemes will also have an accompanying requirement to disclose more information about their portfolio composition but this is not expected to create significant operational burdens for either DC schemes or asset managers as it's largely possible within the scope of existing reporting expectations.

Our recommendation is to consider removing performance fees from the calculation of MER as part of the broader focus on the purpose of super, that being to provide access to all super fund members to the best possible investment returns accessible via the world's best asset managers.

Best regards, Craig

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