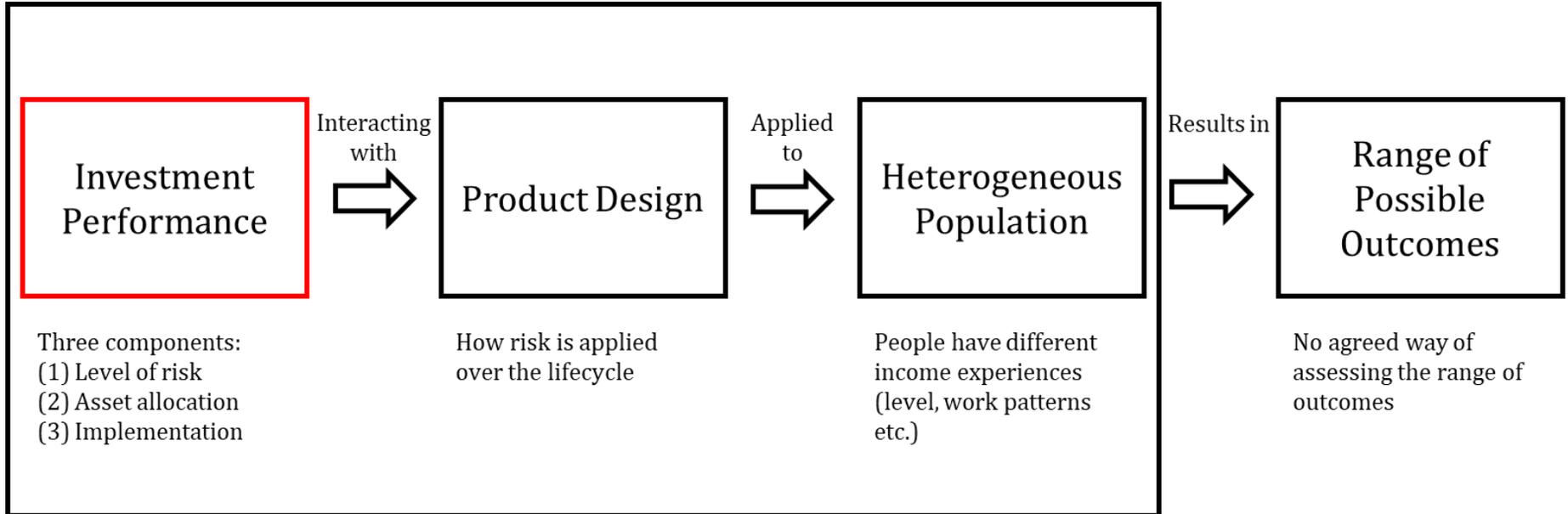


Challenges to a backwards-looking performance test

- 1: More to consumer outcomes than investment returns
- 2: Will it inform future performance?
- 3: Super funds are not stationary

A complex system with large interactions



Challenges to a backwards-looking performance test

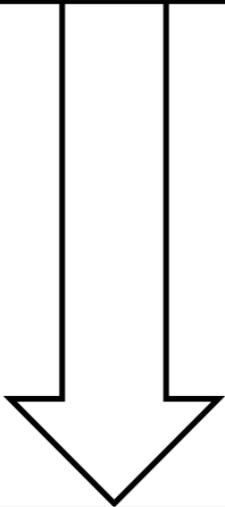
- 1: More to consumer outcomes than investment returns
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- 3: Super funds are not stationary

YFYS
Performance
Metric

(1) 8-year timeframe creates
some uncertainty in statistical
tests

(2) Focuses on one (likely
minor) component of
performance (implementation)
rather than investment
performance in total

(3) The benchmarking process
introduces inaccuracies which
create significant 'noise'



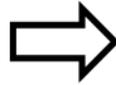
Outcomes	
Effectiveness: fail to identify 'poor' funds	Mistakes: identify 'good' funds as 'poor'

Undesirable outcomes

Concern 1: How funds will invest	Concern 2: Direct impact on consumers	Concern 3: Impact on industry structure
<ul style="list-style-type: none">• Distort portfolio management• ‘Swing for home runs’• Actively managing the YFYS test• Poor alignment with TPA• Deterrent to strategies which reduce risk and provide diversification• ESG challenges• Impact on investment in Australian unlisted assets• Not a good basis for facing future challenges	<ul style="list-style-type: none">• Funds may ‘contest’ the result with their members• Confusion when placed alongside YFYS Comparison Tool• Risk of large cohort of funds failing simultaneously• Doesn’t protect consumers from high administration fees• Penalises the heavily disengaged	<ul style="list-style-type: none">• A deterrent to industry consolidation• Potential ‘zombie’ funds

Inputs

- Risk (gross)
- Expenses (fees)



Process

- Portfolio management
- Governance



Outputs

- Returns
 - Risk
 - Asset allocation
 - Implementation
- Risk (realised)