MAPLE-BROWN ABBOTT
INVESTMENT MANAGERS SINCE 1984

21 April 2023

The Treasury
Email: YFYS@treasury.gov.au

Dear Sir / Madam

Re: Review of Your Future, Your Super Measures

Maple-Brown Abbott is pleased to make this submission in response to the Exposure Draft Regulations that were released on 4th April.

Maple-Brown Abbott Global Listed Infrastructure is a specialist listed infrastructure manager that was set-up in Sydney in 2012 and currently manages approximately $4.5bn for clients globally. It is a partly owned boutique of Maple-Brown Abbott Limited, an Australian owned and based funds management firm since 1984.

The purpose of this submission relates to the choice of benchmark for the listed infrastructure sector. Over the last ten years we have analysed the available listed infrastructure indices in detail, including having written two White Papers that compared the characteristics of what we viewed as the best available and most used indices in the sector, and which we would be pleased to share to Treasury if of interest. In 2015 we also worked with other key listed infrastructure sector participants, with the aim of formulating an index that best reflected the available opportunity set for listed infrastructure investors globally.

The exposure draft proposes the continued use of the FTSE Developed Core Infrastructure 100% Hedged to AUD Net Tax (Super) Index ("International Listed Infrastructure Index"), per proposed amendments[1]. For the reasons set out in this letter we believe that this is a sub-optimal choice of index, which can be easily addressed by moving to an alternate index within the same FTSE index family. From a legislative drafting perspective, this would be a mere nomenclature adjustment. Our submission of adding "50/50" to the index name, whilst subtle, would have positive implications for asset allocators benchmarking within this asset class and ultimately all Australian superannuation holders that have exposure to listed infrastructure.

Our concerns with retaining the existing International Listed Infrastructure Index, as proposed, can be summarised as follows:

1. <u>The International Listed Infrastructure Index is not representative of an International Infrastructure Allocation</u>

The International Listed Infrastructure Index is calculated on a traditional market cap weighted basis. Whilst this approach is appropriate in many asset classes it produces significant distortions within listed infrastructure. The resulting index does not reflect what would be viewed as the infrastructure opportunity set, and nor does it produce what would be generally viewed by infrastructure practitioners as a balanced portfolio outcome. Examples of this include:

[1] Exposure Draft (03/04/2023) - Superannuation Industry (Supervision) Amendment (Your Future, Your Super—Addressing Underperformance in Superannuation) Regulations 2023; 48 Subregulation 9AB.17(7) (table)

- The International Listed Infrastructure Index has an 83% geographic exposure to North America. In our strong opinion this is not reflective of an international infrastructure allocation, and nor is it reflective of the quality of listed infrastructure investment opportunities across other regions of the world.
- The International Listed Infrastructure Index only has a combined 3% exposure to the traditionally core infrastructure transportation sectors of toll roads and airports. In our opinion these assets are highly suitable for long-term investors such as superannuation funds, often well exhibiting the key characteristics of inflation linkage and low cashflow volatility, and as such are an important part of a typical infrastructure portfolio.

<u>2. The International Listed Infrastructure Index is not commonly used by specialist Listed Infrastructure Managers</u>

At Maple-Brown Abbott we view there being at least 30 specialist listed infrastructure managers globally. To the best of our knowledge, none of these managers use the International Listed Infrastructure Index as their primary benchmark. We believe that the key reasons for this are consistent with what we have set out in this letter, and confirm to us that the International Listed Infrastructure Index is a sub-optimal choice of benchmark.

We are also concerned with the unintended consequences of selecting an index that is so rarely used by active managers. In essence this would remove the ability for Superannuation funds to select between an active or passive solution, and in doing so would deprive members of access to high performing listed infrastructure managers. Our sector has a proud track record of strong investment performance by a number of investment managers – and within which Australian managers are globally recognised as being leading performers – and so we do not believe that it would be in the interests of Superannuation funds or their members to be effectively forced to only invest in the sector on a passive basis.

<u>3. There is a better index available that was developed by the Listed Infrastructure Industry</u>

As mentioned earlier, in 2015 Maple-Brown Abbott Global Listed Infrastructure participated in an industry group of five managers and two global investment consulting firms whose aim was to structure an index that best reflected the "median manager's" view of an international listed infrastructure allocation. The managers involved were not seeking to produce an index that reflected their own strategy, but instead were aiming to produce an index that was reflective of the sector as a whole.

In conducting its analysis the industry group considered the overall approach of each of the main index providers in our sector. Our conclusion was that the background rules of the FTSE infrastructure indices provided the best outcome in relation to determining the appropriate infrastructure constituents in a way that was independent from market participants.

Our concern was that the market cap weighted approach that was taken by FTSE, for the indices that they had available at the time, resulted in significant distortions to the make-up of the index (as discussed in "1" above). To address this the group proposed a version of the index that has a capping of 50% to utilities. Further, there is an allocation of 30% to transportation infrastructure assets, and within which a maximum of a quarter of the weighting (so 7.5%) is to railroads. This version of the index is named as the "50/50" indices.

The result of the above simple adjustments meant that the resulting index has much more representative weightings on both a geographic and sector basis relative to the International Listed Infrastructure Index. For example the North American exposure is reduced from 83% to 66% and the transportation infrastructure (excluding railroads) is increased from 3% to 22%

Recommendation

For the above reasons we would recommend that the index used for the listed infrastructure benchmark be the "FTSE Developed Core Infrastructure 50/50 100% Hedged to AUD Net Tax Index".

Maple-Brown Abbott would welcome the opportunity to discuss further.

Yours faithfully

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