AUSTRALIAN INSTITUTE of SUPERANNUATION TRUSTEES

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Committee Secretary
Standing Committee on Economics
PO Box 6021
Parliament House
Canberra ACT 2600

By email to: economics.reps@aph.gov.au

AIST submission to Inquiry into the implications of common ownership and capital concentration in Australia

About AIST

The Australian Institute of Superannuation Trustees (AIST) is a not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate, and public sector superannuation funds. AIST is the principal advocate and peak representative body for the $1.5 trillion profit-to-members superannuation sector.

Scope of submission

The 'theory of common ownership' (the 'theory') puts forward that companies in markets around the globe may engage in anti-competitive behaviour because they have common minority shareholders. The theory has arisen from academia rather than as an evidence-based policy concern. While the fact that investors may have holdings in competing companies is uncontroversial, any impact of this on competition has not been established and remains contested by academics.[1]

The ACCC has stated that they have not received any complaints related to this issue,[2] and we are not aware of any relevant data on competition impacts in an Australian context.[3]

As AIST is not an academic institution, our focus is on evidence-based policy development that will maximise retirement outcomes for Australians through their superannuation. This submission is limited to considering the extent to which the theory can be tested by the experience of superannuation funds as institutional investors in Australian listed companies.

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[1]For example, Dennis, Gerardi, Schenone*: Common Ownership Does Not Have Anti-Competitive Effects in the Airline Industry* (2021)
[2] ACCC submission to the Inquiry into the implications of common ownership and capital concentration in Australia (2021)
[3] Leigh and Triggs, *Common Ownership of Competing Firms: Evidence from Australia* (2021), looked at some instances of common ownership in Australia but did not consider impacts

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Investment by Australian superannuation funds

Our member funds invest the superannuation savings of millions of Australian workers. For many of these Australians, superannuation is their largest, or only, asset. Through their superannuation funds Australians can access market opportunities that they would not otherwise have exposure to. This has allowed market participation, once limited to the few, to be available to all Australians.

Superannuation funds have a fiduciary obligation to act in the best financial interests of their beneficiaries to maximise their financial outcomes over their lifetimes. This leads superannuation funds to be long-term investors. They provide patient capital to grow Australian companies and improve their value over time. Patient capital provides economic ballast through cycles rather than trading in and out of investments, it supports innovation and looks for long-term productivity gains. Delivering long-term outcomes for super fund members requires a strong economy that delivers income and job creation, and sustainable investment returns.

Our members take a range of approaches to investment, either outsourcing to asset managers through mandates or unitised products, operating investments in-house or taking a mixture of these approaches. Our funds generally favour active management, searching out sectors, assets and stocks to find the best long-term returns. The trustee of a superannuation fund is responsible for determining the investment strategy by developing a diversified portfolio with exposure to both growth and defensive assets. Funds set the return objective, risk profile and strategic asset allocation for each option, continually monitoring capital allocation, risk and liquidity. Where our member funds operate all or part of their Australian equities portfolio through outsourcing to asset managers, the asset managers choose individual stocks and levels of industry exposure, according to the parameters of the mandate. The development of a diverse portfolio may result in funds having allocations to multiple companies in the same industry.

Challenges for the theory

The theory of common ownership is disconnected from investment practice,[4] and its assumptions, ascribing motivation and opportunity in the absence of evidence of causation, are not borne out in the Australian superannuation fund context.

Anti-competitive behaviour is a factor that may arise in public markets from time to time regardless of ownership, and which undermines value in those markets. It is in breach of existing laws that regulate trade practices and require company directors to act in the best interests of the corporation. Competition issues are rightly addressed by governments and regulators to uphold the law and ensure markets remain robust and maintain their integrity.

Because superannuation funds have a fiduciary obligation to maximise lifetime financial outcomes for their members, their interest is in ensuring investments are profitable over the long-term. Anti-competitive companies and their industries are vulnerable to disruption, reputation damage,

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[4] Dallas: International Corporate Governance Network, *Common Ownership: Do Institutional Investors Really Promote Anti-Competitive Behavior?* (2018)

inefficiency and lack of innovation. Short-term profit seeking behaviour at the expense of a significant loss of shareholder value over the medium to long term is contrary the interests of superannuation fund members.

Superannuation funds would be concerned if they became aware of company engaging in anti-competitive behaviour. They have an expectation that the companies they invest in are operating in keeping with their responsibilities under the law.

Policy responses in relation to the theory of common ownership should not be developed in the absence of a body of evidence establishing competition issues and the causes of these.

Thank you for the opportunity to comment.

Your sincerely

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