

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates, 31 May to 2 June 2005

Question: Bud 82

Topic: APRA – Superannuation Funds Servicing Individuals with a Common Linkage

Hansard Page: E44

Senator Sherry asked:

Senator SHERRY—Yes, I understand that. But you seem to be saying that where you have a group of individuals with a common linkage, and a religious example is given, you are more tolerant with respect to adequate investment diversification than you otherwise would be because of those special circumstances.

Mr Jones—I am trying to think of a specific instance that I could give. I might have to take that on notice and come back to you.

Answer:

- APRA treats such instances with appropriate discrimination and sensitivity, but seeks to ensure that the residual field of investments acceptable to the trustee is still broad enough to ensure sufficient diversification in the context of the fund circumstances.
- Examples would be ethical funds discriminating in favour of environmental or triple bottom line impact, and against tobacco, alcohol and gambling stocks and funds whose members belong to a particular religious group whose beliefs forbid investment directly in particular businesses such as piggeries or in publicly listed equities in defined categories.
- Another example would be a group whose common linkage is age, where the members of a small superannuation fund are all at, or approaching, retirement age. Typically, the investment strategy of these funds is narrower than that of funds with a wider age distribution and could be concentrated in capital secure products – reflecting the preparedness of beneficiaries to accept potentially lower returns in exchange for capital security.
- In all such instances APRA would seek to ensure that the trustee understands the risk/reward relationship in terms of its risk management strategy/plan, and undertakes periodical reviews to determine ongoing relevance.