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Why superannuation funds are driving a convergence between public and private assets

Unlisted asset valuations remain in the spotlight but they're just one component in a larger push for more accurate and timely data, according to Lewis Moreline, head of Fund Services Product, J.P. Morgan Australia and New Zealand.

The size of the superannuation industry has surged over the last decade, prompting funds to seek new sources of returns by delving deeper into unlisted and alternative assets.

It is leading to increasingly diverse portfolios that include a far wider range of global assets than traditional listed Australian equities and bonds.

It is also placing new demands on funds, which need to drive outperformance while managing a wider range of risks. The structural differences of unlisted assets, including infrastructure such as seaports and airports, direct property, and private equity, are creating unique challenges.

The answer is more granular data delivered faster than ever, allowing funds to see an accurate daily and holistic view of their entire portfolio.

The unlisted asset data challenge

The long investment timeframes of superannuation funds creates a natural alignment with their ownership of unlisted assets. Infrastructure assets, which are often monopolistic and backed by long-term contracts linked to inflation, have attracted significant superannuation fund investment over the past decade.

APRA-regulated funds are predicted to invest an additional $31 billion into private equity, $41 billion into unlisted property, and $36 billion into unlisted infrastructure over the next ten years, according to Industry Super Australia.

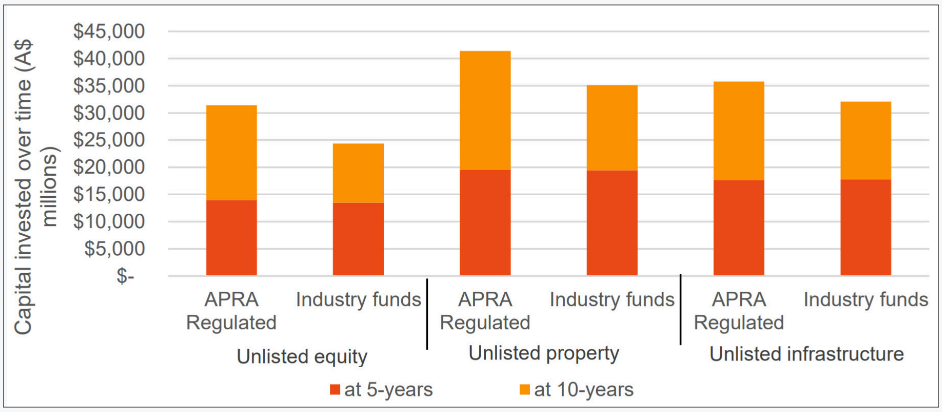
These unlisted assets require the independent consideration of more factors in ascertaining value than publicly traded assets. It prompted APRA to launch an unlisted asset valuation thematic review in October 2021, which led to a recent overhaul of SPS 530 (Investment Governance in Superannuation).

Funds have strengthened their governance frameworks to tackle valuation risk while many are increasing the frequency of their valuations including out of cycle valuations to reflect latest market conditions. They are also receiving other unlisted asset data to allow for daily evaluations of entire portfolios.

This can include economic and asset metadata such as the last and next valuation dates, as well as the timing of capital calls and future distributions; to more advanced analysis such as projecting cash flows or even using artificial intelligence (AI) to analyse big data sets (such as future weather patterns or traffic flows) that may affect the performance of specific infrastructure assets.

This is allowing for a better comparison with listed assets, which are priced multiple times a day and accompanied by widely available public data.

Figure 1: Projected cumulative superannuation fund investment into unlisted assets



Source: Industry Super Australia.

New approaches as ESG priorities increase

The volume of data is also increasing. To manage this effectively requires stronger systems and processes from service providers and funds.

J.P. Morgan, which serves many of Australia's largest funds as custodian, is starting to use AI in the form of natural language parsing to speed up the process of extracting unlisted asset data from documents. In the unlisted sector, transaction and deal terms differ across each asset while manual paperwork still dominates. This creates significant work to collate and then shift information from paper to digital platforms.

Many of the larger funds are also building their own in-house analytics platforms to produce more tailored analysis. Nearly three-quarters of funds cited data transformation as their key priority to create a more efficient and innovative fund, according to the 2022 J.P. Morgan Future of Superannuation survey.

In terms of efficiency and innovation, where are funds deploying their efforts?*

73.21 %
Data Transformation

69.64 %
Automation

21.43 %
AI/machine learning

*Respondents were able to choose up to a maximum of 3 answers. Top 3 responses shown.

The looming impact of climate change is propelling a greater focus on ESG, with most major funds also now committing to achieve net zero portfolio carbon emissions by 2050.

The challenge is immense with a wide range of methodologies underpinning third-party ESG ratings, which can produce varying results.

Collating ESG data for listed companies can also be challenging. For example, ESG risk ratings can be updated monthly rather than daily, while some sectors, such as Australian small caps, don't always receive the same level of ESG analysis as large caps. Some funds are using AI to relieve their investment teams from doing manual ESG data updates.

This heightened focus on data and innovation has never been more crucial given Australian superannuation funds still invest less in key unlisted assets such as private equity compared to their overseas peers, according to the J.P. Morgan Future of Superannuation report.

Billions of dollars more are set to flow across the unlisted sector, which will set the foundation for asset owners to continue their long track record of outperformance, creating better retirement outcomes for all Australians.

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