

HESTA consultation submission

ASIC – a discussion paper on the dynamics
between public and private markets

April 2025



Super
with
impact

About HESTA

HESTA is a profit-to-member industry super fund investing more than \$89 billion¹ on behalf of more than one million members, who work predominantly in the health and community services sector. Our purpose is to invest in and for people who make the world better. We bring that purpose to life through Super with impact™. This is the positive outcome we create by supporting our members to face the future with confidence, being a gutsy advocate for a fair and healthy community and delivering investment excellence with impact.

As a large institutional investor, the performance of both public and private markets is crucial to us, as these markets form the basis for portfolio diversification, risk management, and the creation of long-term value. Stable and well-functioning markets, supported by liquidity, enable efficient capital allocation, effective governance aligned with investor interests and disciplined cost management that safeguards long-term returns.

We recognise the importance of pursuing a growing, sustainable, and inclusive economy. However, the inherent exposure in our portfolios to global systemic issues, such as climate change and natural capital and biodiversity loss, cannot be mitigated through diversification or divestment. By proactively managing these systemic risks via integrating responsible investment principles and catalysing innovating investments, we aim to deliver strong, long-term returns for our members while accelerating our contribution to a more sustainable world. This commitment to responsible investment we call "*investment excellence with impact*"² and underpins our response to this consultation.

¹ As of 23 April 2025.

² To learn more about how HESTA invests responsibly go to hesta.com.au/investment-excellence-with-impact

Introduction

HESTA welcomes the opportunity to respond to ASIC's discussion paper on Australia's evolving capital markets and the dynamics between public and private markets. HESTA's position is that both private and public markets play distinct and yet complementary roles in supporting institutional investors such as HESTA to design diversified global portfolios capable of delivering strong long-term retirement outcomes for members.

The recent growth in capital investments within Australia's private markets, aligned with global trends, is presenting new and expanding investment opportunities for institutional investors. Additionally, private markets provide opportunities across regions and capital structures to access tailored exposure and governance rights aligned with our long investment horizon. These opportunities span asset classes such as infrastructure, private equity, real estate, private credit and insurance-linked securities.

HESTA's perspectives:

1. Private markets enable institutional investors to access unique investment opportunities with strong governance rights and alignment of investment horizons, capture an illiquidity premium, enhance portfolio diversification and risk-adjusted returns and innovate with tailored solutions to meet member preferences.
 2. Appropriate levels of governance and information sharing to investors are present in both public and private markets, but this is achieved differently – public markets rely on regulation and standards given dispersion of public ownership, versus more centralised ownership, decision-making and targeted reporting in private markets.
 3. We believe there is a role for institutional investors like HESTA to deliver returns for their members through long-term investment in both public and private markets, supporting economic growth and enhancing Australia's global competitiveness.
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How we invest and manage our investments in private markets

Unlocking innovation and growth and long-term returns

For HESTA, private markets provide a critical incubator to foster innovation and unlock growth opportunities not accessible in public markets. They also play an important role in nurturing early-stage investments that rely on private equity and venture capital to develop and scale their operation, and in turn, reward investors with higher growth potential and attractive returns.

Private markets investments are less liquid assets than those in public markets, and this in-turn allows investors to benefit from a liquidity premium for holding long-term assets — an approach well-suited to our extended investment horizon and membership, while maintaining adequate levels of liquidity to pay members.

Over time, the success of private markets contributes to economic growth in direct value creation and job creation, and indirectly, as a source of innovation, spreading value and technological advancements that ultimately is adopted in the broader economy.

Additionally, changes in local and global trends, with more companies staying private for longer, will by necessity lead to more investments being made in private markets to access these emerging opportunities.

HESTAs Super with impact™ purpose and investment approach

HESTAs takes an active investor position in the wholesale private market, offering opportunities to innovate and find tailored investment solutions that align to our members' best financial interests, while generating positive outcomes alongside strong long-term risk-adjusted returns as part of HESTAs Super with impact™ purpose.

Industry super funds like HESTA have a history of innovating, particularly in unlisted asset classes like property, where we have an opportunity to develop and scale new investment approaches suited to longer-term investments that offer a range of investment benefits like portfolio diversification and resilience, inflation-protection and stable returns over the long-term.

An example of this innovation is in housing, where innovation is driven by our commitment to invest in opportunities that provide the appropriate risk-adjusted returns to our members and help to improve affordable housing supply.

When combined with the accessibility and liquidity of public markets, private markets offer complementary benefits that can further enhance portfolio diversification and resilience.

Accessing opportunities in private markets can help to address and mitigate systemic portfolio risks such as climate change and biodiversity loss, and those risks that cannot be diversified away within our portfolio. HESTA is committed to investing 10 per cent of the portfolio in climate solutions such as renewable energy and sustainable property, by 2030³.

An example of this is our investment in the Intera renewable energy platform through our investment manager Palisade, where we have invested in the Limestone Coast North Battery Energy Storage System. This project is critical to South Australia's electricity network and is the first of Pacific Green's 10-gigawatt-hour Australian pipelines.

Strategic benefits of private markets and new and emerging technologies

Private markets are particularly well-suited to fostering investment in real estate and infrastructure where investments are capital intensive and provide a natural hedge against market volatility and inflation due to their stable cash flows, inflation-linked revenues, long-term nature and tangible asset value.

Private markets are also ideal for new and emerging companies where large upfront capital investment is needed to develop and pioneer new technologies or groundbreaking ideas. By enabling early access to transformative opportunities, these markets unlock the potential for substantial financial returns. Early-stage investments are also instrumental

³ Identification of opportunities has been based upon the Sustainable Development Investment Asset Owner Platform (SDI AOP) Taxonomy. Investments that are aligned to SDG 7, 11.6 and 13 have been included in the baseline. For further information on these objectives please refer to HESTA's Climate Change statement <https://www.hesta.com.au/content/dam/hesta/Documents/hesta-climate-change-statement.pdf> and more information available at <https://www.sdi-aop.org/sdi-classification>.

in advancing innovation that seek to address pressing global challenges and contribute to fostering long-term sustainability.

Governance in public and private markets

In each of the public and private markets, appropriate and adequate levels of governance and information exist and are shared with investors, with the difference being the mechanism through which this is achieved – regulation and standards in public markets versus more concentrated governance rights and targeted disclosures for investors in private markets.

The different ownership structures of public versus private structures give rise to different roles for investors and for regulators. Public markets are accessible to all investors including retail investors, with many investing passively and retaining only a very small holding in applicable assets. Typically, no individual investor has sufficient holding to command governance rights, and the governance standards and transparency needed to protect and inform investors must be achieved through law, regulation, standards and disclosure.

In contrast, private markets are typically accessed by sophisticated institutional investors who are often active investors equipped with well-resourced and multi-disciplinary teams leveraging expertise and due diligence to make informed decisions. With ownership spread across a smaller number of investors than is the case in public markets, investors often have stronger governance rights (which can include board appointments), which provide access to information and an ability to influence the strategic direction of the company in members' best financial interest.

In evaluating the unique role and governance structures that uphold the integrity of private markets, it is essential for ASIC to work with investors to understand the impact of any proposed regulation and the need to preserve existing frameworks in these markets. When compliance measures are not targeted or purposeful, there is material risk of overregulation, which can diminish flexibility, diminish returns, erode investor confidence, and dampen or discourage activity in these markets.

Delivering strong member returns while supporting economic growth and promoting good corporate governance

Institutional investors, such as superannuation funds, are equipped with the skills and capabilities to make investment decisions to deliver long-term returns for our members. Through the scale of funds under management, institutional investors can make large scale capital investments, in both public and private markets, to drive innovation and growth that supports Australia's economy.

With the benefit of being long-term investors, institutional investors can provide patient capital invested alongside and supporting government investments where risk-adjusted returns and member interest are aligned. The success of these investment models does require there to be stable regulatory and contractual frameworks that allow all parties to thrive.

Supporting institutional investors to invest alongside government where appropriate can create meaningful benefits that can deliver positive economic and social outcomes for all parties involved. This approach not only helps scale purposeful investments but also reduces our investment risks while delivering appropriate returns for our members.

Beyond capital allocation, we recognise our responsibility to promote good corporate governance, a responsibility that is shared by all institutional investors in private and public markets.

At HESTA, we engage with companies through active ownership and advocate to government and regulators for policies that support strong and stable markets. By promoting strong governance, we aim to protect investor rights, preserve shareholder value and align management with long-term objectives. These efforts not only safeguard the resilience of our investment portfolio for the benefit our members, but enhance Australia's competitiveness as a destination to attract global institutional capital.

Conclusion

Public and private markets complement each other in helping institutional investors like HESTA achieve strong, long-term returns. Aside from the characteristics and benefits offered in private markets, they particularly excel in fostering innovation and providing access to transformative investments. It is in these markets where we can integrate our responsible investment principles to deliver financial value for members and contribute to a sustainable, inclusive economy.

HESTA supports the views made in submissions by the Association of Superannuation Funds of Australia (ASFA), Super Members Council (SMC), Australian Council of Superannuation Investors (ACSI), Industry Funds Management (IFM) and Australian Investment Council (AIC)

We support the collective views shared in these submissions highlighting the rigorous investment and operational due diligence processes by institutional investors when engaging in private markets. In particular, the robust processes for assessing financial, operational, legal, and strategic aspects of investments which contribute to sound investment decision making, and the strong and adequate level of oversight and transparency this brings in Australia private markets. Further, we support the engagement underway with APRA to continue to strengthen industry standards for valuations.

In Australian public markets, we endorse the value of upholding robust corporate governance and the value this brings to investors, and Australia's overall attractiveness to global investors.

We value ASIC's informative discussion paper and its acknowledgment of the critical role private capital plays in supporting Australia's economy. We welcome the opportunity to collaborate further with ASIC and contribute our perspectives on both public and private markets as it progresses its review of the private market following this consultation.



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