22 May 2025

[redacted]
Level 5
100 Market Street
Sydney NSW 2000

Dear [redacted],

UniSuper appreciated the opportunity to meet with ASIC on the 5th and 8th of May to discuss our views on the report *"Australia's evolving capital markets: A discussion paper on the dynamics between public and private markets"*.

We are in broad agreement with the thrust of the submissions from like-minded peers and industry bodies as they pertain to the major issues. The following serves as a summary of views expressed at our meetings:

- UniSuper is very supportive of ASIC's ongoing efforts to deepen its knowledge base of private markets. Reports published by Australian regulators are widely regarded as a trusted "source of truth" and serve as reference points in various forums.
- UniSuper's diversified options include a material allocation to private market assets, the majority of which are mature, income-generating assets. Exposure to venture capital and early-stage private equity is negligible **(note 1)**.
- The benefits of investing in private assets are real **(notes 2, 3 and 4)** and we believe there are structural drivers underpinning this growth. While UniSuper may be nearing the upper bounds of our private market exposure in percentage terms, the dollar value of these holdings is expected to grow in line with Fund growth. Other super funds may find themselves in a similar position as: (a) a larger component of the membership base transitions to retirement and (b) competition for customers heats up between retail platforms and industry funds. Both trends warrant a more conservative approach to liquidity.
- ASIC appropriately identifies the risks associated with private market investments, such as transparency, liquidity, and potential conflicts of interest. Large super funds are very well equipped to deal with these risks **(note 5).** Indeed, we strongly feel that large super funds represent a cost efficient and prudent way in which retail investors can access private markets.
- From an institutional investor perspective, UniSuper does not see any evidence of systemic market failure that warrants additional regulation of private markets. However, we understand that there may be a need for added protections for retail investors in single sector private market funds.
- UniSuper agrees that we need healthy public markets. The decision by a company to stay private or "go public" is based on a range of considerations. We accept that the increased regulatory burden placed on public companies may be

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a factor in the decision to remain private, albeit only at the margin. Nevertheless, UniSuper is particularly pleased that ASIC is working with the ASX on ways in which listing rules can be streamlined to ease the burden and enhance Australia's global competitiveness. We note that other submissions include ideas that are worthy of consideration.

- UniSuper provides APRA with a great deal of information regarding portfolio holdings, liquidity and asset allocations. We encourage further collaboration between regulators and would be willing to furnish ASIC with further information as required.

We would welcome the opportunity to meet with ASIC to clarify any points or provide further information.

Yours sincerely,

[redacted]

[redacted]
Chief Investment Officer

Note 1: Our allocations

UniSuper's private market allocations remain generally below that of industry peers. We are currently nearing the upper range of our internal targets, expressed as a percentage of total assets. As the Fund continues to grow, we anticipate allocations in dollar terms will increase. Our private markets allocations favour domestic infrastructure and property due to their characteristics, and we see these assets as aligned to our members' objectives and easier to value compared to other types of private equity assets, particularly venture capital. We acknowledge that allocating to private market assets that exhibit more defensive characteristics (lower expected risk, lower expected return) is challenging in the context of the Your Future Your Super performance test. Our private equity and credit programs are small in the context of our Fund.

UniSuper's Fund-Level Allocations to Private Markets at 31 December 2024

	$ (BILLION)	%
Unlisted Infrastructure	12.8	8.4
Unlisted Property	8.3	5.5
Private Equity	1.4	0.9
Private Credit	1.3	0.9

UniSuper's Fund-Level Allocations to Private Equity Types at 31 December 2024

	$ (MILLION)	%*
Direct – Mature Operating Businesses	490	35
Funds	840	60
Venture Capital	60	4

*figures may not add to 100% due to rounding.

Note 2: The benefits of investing in private markets

Private markets offer several advantages that enhance UniSuper's ability to deliver risk-adjusted returns, including:

- an expanded investment opportunity set to drive returns and portfolio diversification, particularly challenging at large scale
- a long-term, patient approach to investment that avoids the short-term earnings pressures associated with listed entities
- an illiquidity premium in some cases
- a dampening of return volatility which can be beneficial for members, particularly in pension phase.

Note 3: The convergence of public and private markets

We are seeing convergence through the growth of continuation funds, secondary transactions and some products that attempt to achieve liquidity through specific windows. We know that the democratisation of private markets is an important debate. We'd offer three perspectives:

- We accept that illiquid assets are in fact illiquid. Regardless of how the underlying asset is structured, during times of stress we do not expect to realise liquidity from this part of our portfolio. We construct our portfolios accepting we may not realise liquidity for years or, in some cases, decades. Our Fund size, structure, current inflow profile and prudent allocation levels afford us this position.
- We accept the information asymmetry that exists in private markets. We organise our resources, incentive structures, and governance accordingly. However, we acknowledge this is a function of our size and smaller participants may not be able to 'level the playing field' to the same extent.
- While direct access to private markets is limited for many investors, large superannuation funds provide a prudent and cost-effective vehicle through which households can gain exposure to these assets.

Note 4: Sydney Airport | Contrasting public and private ownership

In 2022, UniSuper was part of the largest all-cash deal in Australian corporate history, a ~$24 billion takeover of Sydney Airport. This is UniSuper's largest, direct private asset. As an owner of both, the key contrasts between the publicly listed asset compared to the private asset are:

- Long-term focus and value creation: the ability to prioritise long-term planning and strategic initiatives without the pressure of quarterly earnings and short-term capital management demands (such as dividend increases) fosters focus on long-term value creation for shareholders.
- Superior governance rights: in the case of Sydney Airport, UniSuper secured two board seats. Achieving this level of governance in public market investments is not possible.
- Alignment and expertise: UniSuper maximises member alignment through its direct holding. We also leverage the expertise of the other large, institutional and experienced owners of the airport. The alignment between all owners, ensures we work towards common goals. We provide two working examples of this alignment:

    - Operational excellence: the institutional owners of Sydney Airport have brought operational excellence and know-how from investments in offshore airports. This knowledge includes uplifting security and baggage services and is an example of the direct influence experienced owners can apply under the current ownership structure.

- Knowledge transfer: the institutional owners have also created opportunities for cross fertilisation and knowledge sharing benefitting Sydney Airport's management team. This has resulted in onsite visits to a number of European airports. This knowledge transfer is another example of how the ownership structure has enabled owners and management to work closely towards common goals.

Note 5: Managing risks in private markets

The private market-specific risks we focus on includes:

- Liquidity: the nature and size of our private market assets means we do not expect to transact assets quickly (regardless of the market environment). We size our allocations accordingly and manage liquidity prudently.
- Opacity, information asymmetry, and conflicts of interest: by virtue of our size, we receive a high degree of transparency from our private market partners and negotiate terms and incentive structures to manage agency risks and conflicts of interest. Specifically:

    - Strategic partnerships: we tailor our mandates to create alignment to member outcomes. Some partners form an extension of our team, providing us asset management services at our direction. For others, we've negotiated direct risk sharing arrangements from our co-investment partners' balance sheets.

    - Incentive structures: specifically, we:

        - Evaluate expected alpha and proportion between base and performance fees accordingly.
        - Set performance hurdles aligned with the goals of the specific mandate or asset (e.g. achieve net operating income budget, achieve leasing outcomes).
        - Set maximum performance fee amounts, negotiate most favoured nations clauses, impose clawbacks, and co-invest with partners. Many of these fee benefits are difficult to achieve in an open-ended fund structure where success payments are often accrued daily and made annually – a mismatch with the investment time horizon of the underlying asset. Our size and resources give us the requisite scale to achieve this alignment.

    - Leverage: private markets can use high levels of leverage to maximise returns. We take a more conservative approach.

    - Valuations:

        - Governance: a good valuation governance framework provides for valuations that are (i) timely (ii) fair and independently derived and (iii) ultimately approved by a Board appointed committee that operates at arms-length from Management. UniSuper operates under such a framework.

- Valuation frequency: UniSuper believes that a quarterly valuation cycle is sufficient to strike a fair and reasonable valuation. However, we accept that in extenuating circumstances out-of-cycle valuations are essential. We doHowever, we do not, however, accept the argument that valuations should be reviewed in lock-step with changes in listed markets prices. While the listed market is generally an efficient price-discovery mechanism, it is often an inefficient value-discovery mechanism. This is particularly the case when markets are dislocated. For example, during COVID-19, we observed the prices of publicly traded assets falling by an order of magnitude greater than private market equivalents. Some listed airports fell by around 40%, while unlisted airports were marked down by around 10%. In hindsight, the marks of the private assets proved a better barometer of fair value than public markets. Super funds are generally long-term holders of such assets and were not in a “forced (panic) selling” position.
- Member equity: UniSuper is conscious that member equity cuts both ways. Overly conservative estimates are just as inequitable as overly optimistic.

- Disclosure: UniSuper does not accept the argument that valuations of individual private market assets should be disclosed. Such valuations are commercially sensitive and disclosure would not be in members’ best financial interests.