ASIC's surveillance at a glance

ASIC
Australian Securities & Investments Commission

Complex structures and related-party arrangements

- In one case, **around 17% of a fund's assets** were transferred to related funds managed by the same funds management group in a single year. In another case, **15% of a fund's assets** were transferred between related funds within the same fund management group in a single year. These transactions were not fully disclosed to investors.
- **18 out of 24 funds** used multiple layers of intermediary entities in their structures, including special purpose vehicles (SPVs), fund-of-funds structures and warehouse vehicles. Some funds did not disclose these clearly to investors and explain the implications of these structures.
- **Ten out of 12 wholesale funds** used SPVs as a material part of their investment structures, compared with 3 out of 12 retail funds. Funds used anywhere **from 0 to more than 500 SPVs** (cumulatively since inception) depending on the size and nature of the portfolio.

Fees, incentives and economic benefits

- **Only two funds** passed the full economic benefits of interest and borrower fees to investors across the wholesale and retail funds reviewed.
- The undisclosed borrower fees, interest margin, and default interest retained by a related-party lender **exceeded four times the disclosed management costs** for one fund (based on approximate figures). For every $1 distributed to investors, the related party of the fund operator received 38 cents during the relevant calendar year.
- It was common for funds to retain fees paid by borrowers, but fee disclosure was not always complete or consistent. **Seven out of 10 retail funds** and **nine out of 12 wholesale funds** reviewed retained establishment or origination fees, with two funds not disclosing this practice to investors.

Deficient disclosures and retail distribution practices

- **Nine of 12 retail funds** did not clearly disclose key information important to an investor's decision, including information about underlying assets, structures or risks.
- **Ten of 12 retail funds** had target market determination (TMD) settings that ASIC considered poorly designed, including broad or unclear risk ratings and inappropriate allocation recommendations.
- The marketing material of **three retail funds overemphasised returns**, stability, liquidity or capital preservations.

Excessive concentrations in private credit recommended by some financial advisers

- **88% of advice files** that recommended portfolio allocations of more than 20% to private credit funds failed to demonstrate compliance with the best interests duty.
- **87% portfolio allocation** was the highest allocation observed that a financial adviser recommended for investment to a single private credit fund.