What You Don't Hear

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DID YOU KNOW that the Australian Securities and Investment Commission (ASIC) has been investigating "Insider Trading" allegations against super funds?

Recently it was disclosed that ASIC more than doubled the size of its investigations – it is now examining closely insider trading allegations against 127 retirement fund's executives and is considering launching at least 4 insider trading cases.

So, what exactly is ASIC investigating?

Well, it would like to assess if some of the "super fund" executives switched their portfolios within the super funds prior to a revaluation of the unlisted assets within the portfolio of these funds. The reason why this would ring alarm bells for the regulator, and you, if you are a member of one of these funds, is that as executives working in the super fund, they were privy to the knowledge (price sensitive information) that the unlisted assets would more than likely be revalued in light of the impact of COVID and have acted on that before any changes could take effect.

An opportunity not available to the other members of the fund.

Consider for example, if your super fund had invested in Heathrow Airport or Sydney Airport.

At the height of the pandemic, and to this day, travel is not quite what it was in the pre-pandemic days.

The significantly lower passenger footfall would negatively impact the revenues and therefore the valuation of these assets.

A downward revision in the asset valuation, would result in a lower super fund value, and so by switching their super fund from these investment options to other options or even to other funds, they exited at a higher value than the other members would have.

Adam Nowakowski/unsplash

If investigations conclude that this is what indeed happened, then it would seem that these executives exploited their position of trust to safeguard their interests ahead of the other members.

On top of this, should these breaches be proved, it is a possibility that financial penalties may be levied on these super funds, and guess where that payment is going to come from?

That would be a double whammy for the super fund members. And if you are one, you should be worried about this.

This issue highlights the impact that the inclusion of unlisted assets (often included under "Alternative Assets") could have on you as a super member. Besides the lack of transparency, as there is no active market for these assets (unlike say shares that are traded on the market and you can confirm the value anytime), it could be a situation where your super portfolio may be overstated until the valuation comes through.

Here are some questions you may ask to understand your fund's position a bit better:

- What proportion of the funds' assets are invested in the Alternative Assets?
- What are the allowable ranges? What is the trade frequency?
- What is the composition of these Alternative Assets?
- How frequently are these assets revalued? Is the fund (could be across multiple investment options) a significant stakeholder in any one of such assets?
- What has the past return on this asset class been and what kind of risks are associated with it?

In most cases, my experience unfortunately has been that this information is not readily available making it hard to understand and assess whether this is the right strategy for a client.

Add to this the layer of potential misconduct and it suddenly becomes a minefield to navigate for retail clients.

The question then for you, is would you consider a super fund where an executive was charged with insider trading?