



PARA BELLUM ADVISORS

PRACTITIONER PAPER

# The \$3 Trillion Blindspot

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## Rethinking Superannuation's Investment Function

Why governance inertia, rigid mandates, and outsourcing are draining long-term value – and how global leaders are doing it better

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## Executive Summary

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Australian superannuation funds manage over AUD 3.5 trillion in assets, yet their investment functions often remain dominated by compliance, benchmark tracking, and outsourced execution. This practitioner paper argues for a strategic reframing – positioning the superannuation investment office as an integrated, value-generating function.

Drawing lessons from international leaders and diagnosing current gaps in governance, execution, and capability, this paper outlines a comprehensive reform blueprint. It calls for dynamic risk management, capital efficiency, and automation as levers to transform passive compliance into active capital stewardship.

*The time for transformation is now. With regulatory clarity, member expectations, and global competitiveness all rising, Australia's super funds must evolve from fiduciary administrators into capital catalysts.*

# 1. Why This Matters Now

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Australia's superannuation system is one of the largest pension systems in the world. With over AUD 3.5 trillion in assets and growing influence in global capital markets, the sector plays a vital role in long-term financial security and macroeconomic stability. Yet, despite its scale, the investment function within many superannuation funds remains conservative and compliance-driven.

Several forces now compel a transformation.

- **APRA heatmaps and YFYS benchmarks:** Pressures from the Your Future, Your Super performance test has entrenched benchmark-tracking behaviour, reducing tactical flexibility and innovation.
- **Market volatility and geopolitical risk:** Traditional risk models are strained under macro instability, supply shocks, inflation, and climate risk. Investment strategies must now consider a broader range of exogenous variables and tail risks.
- **Internalisation trends:** Larger funds build in-house teams for public and private markets, but execution and risk integration remain underdeveloped. This has created a growing bifurcation between governance ambition and implementation capability.
- **The scale paradox:** Despite trillion-dollar mandates, many super funds lack the tactical infrastructure, in-house structuring skills, or dynamic capital frameworks to unlock scale benefits.

This practitioner paper presents a critique of current practices and a practical roadmap to reframe the investment office from fiduciary formality to strategic capital catalyst.

## 2. The Hidden Cost of Benchmark-Hugging and Governance Gaps

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### 2.1 Legacy Governance

Many super funds maintain well-developed fiduciary structures, with multiple layers of oversight – boards, investment committees, risk committees, and consultants. However, governance remains largely policy-oriented rather than execution-focused. Risk oversight often functions independently of investment strategy, and committees rarely consider solvency-adjusted performance or scenario-linked responses. Instead, meeting agendas are dominated by compliance reporting, performance benchmarking, and manager review cycles.

This disconnect, results in structural inertia. Investment committees avoid deviation from the strategic asset allocation even when relative value or risk conditions warrant tactical action. In some cases, governance rigidity leads to missed rebalancing opportunities or over-allocation to safe-haven assets that erode long-term performance.

### 2.2 Outsourcing Dependency

Historically, funds outsourced asset management to external managers. While this supports diversification and scale, it fragments accountability. Consultants often intermediate execution, and OCIO mandates dilute control. Fee leakage is significant – up to 60-80bps in some models – and multi-manager structures inhibit nimble rebalancing.

Strategic overlays, derivatives, and hedging decisions are commonly left to custodians or banks and rarely challenged by internal teams. This overreliance on external parties creates information asymmetry and delays execution. In-house teams struggle to evaluate overlay pricing or collateral terms, resulting in operational drag and suboptimal cost structures.

### 2.3 "Safe" Mandates and Static SAA

Tracking error aversion is common due to regulatory benchmarking. Strategic asset allocations are locked and rarely challenged by dynamic inputs. This inertia prevents alignment with changing macro conditions, currency volatility, or capital opportunities. Most investment policy statements prohibit tactical bands, derivatives, or flexible overlays.

*The industry's reaction to the YFYS test prioritises peer-relative returns over absolute capital preservation or member-centric outcomes. This has suppressed innovation in structured credit, options-based hedging, and real-time execution management.*

## 2.4 Risk Without Reward

Despite the growing complexity of global markets, most super funds underutilise relative value trades, volatility structures, or capital-efficient overlays. Risk is reported but not monetised, and opportunities for alpha – in the form of swap curve steepens, FX collars, or convexity overlays – are routinely ignored.

Investment teams are rarely empowered to propose or execute trades that deviate from benchmark weightings. Risk is seen as a constraint to comply with, not a variable to optimise. This conservatism results in performance drag and inefficient allocation of risk capital.

## 3. Case Studies of Structural Inefficiency

### 3.1 FX Execution Drag

Super funds often hedge foreign exchange exposure passively via monthly forward rolls. Without strategic discretion, these are generally executed in routine cycles by custodians or via pre-approved dealer panels. The result is execution slippage, missed alpha from mark-to-market P&L harvesting, and the absence of optionality in hedge structures.

There is typically no usage of collars, layered hedging, or relative value timing between currency pairs. FX is treated as a cost centre rather than a source of convexity or tactical value. Funds that avoid managing this exposure dynamically risk persistent yield erosion.

### 3.2 Illiquid Credit Overexposure

In pursuit of yield, many funds have overallocated to illiquid credit and private debt — direct lending, mezzanine finance, and infrastructure debt. While these assets can offer attractive spread pickup, they are rarely managed with appropriate exit planning or liquidity stress testing.

Some funds have become over-reliant on primary deal flow, chasing allocations without questioning valuation models or downside scenarios. Private credit allocations are often opaque in return attribution, and governance around manager performance, covenants, and recovery assumptions is weak.

### 3.3 Overdiversification Without Differentiation

The belief that diversification is inherently valuable has led many funds to maintain excessively broad portfolios, often with 30–50 external mandates. This introduces complexity, blurs accountability, and results in return dilution.

Mandates are frequently benchmarked to similar indices with overlapping exposures. Risk systems struggle to aggregate exposures across managers, making it difficult to identify systemic tilts or overconcentration in factor risks. Rather than diversification, this produces duplication and execution noise.

### 3.4 Collateral and Margin Management

Despite the increasing use of derivatives for hedging or duration extension, few super funds manage collateral dynamically. Custodian-driven margin calls are reactive. CSA agreements are standardised and often unfavourable, requiring daily variation margin in cash even when more efficient collateral could be used.

Funds may need to sell yield-bearing assets during periods of market volatility to meet margin demands. These forced sales impair long-term performance and signal poor treasury integration. CSA negotiation, collateral ladders, and forecast dashboards are largely absent.

### 3.5 Gating Risks in Private Assets

Superannuation funds are among the largest global allocators to private equity, infrastructure, and unlisted property. However, the combination of illiquid assets and member liquidity obligations presents a structural mismatch.

Gating clauses in LP agreements, lack of exit strategies, and valuation lag risk leave funds vulnerable in stressed conditions. Real-time liquidity buffers are thin, and ALM stress tests often ignore the impact of simultaneous market and withdrawal shocks.

## 4. Lessons from Global Pension Powerhouses

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### 4.1 Canada: CPP, OTPP, HOOPP

Canadian pension plans are often cited as the global benchmark for integrated investment governance. Their models blur the lines between actuarial management, investment execution, and treasury oversight, fostering collaboration across disciplines. CPP Investments, OTPP, and HOOPP operate internally managed investment teams with deep capital markets expertise. Structurers, traders, and risk professionals work within the same governance frameworks, enabling real-time strategy alignment with opportunity.

These funds treat capital and risk as dynamic variables. Derivatives are used not just for hedging, but to manage liquidity, duration, convexity, and currency overlays in a capital-efficient manner. Investment decisions are routinely assessed against internal cost-of-capital thresholds, and execution is supported by automated trading infrastructure. Daily dashboards track ALM metrics, P&L, margin positions, and regulatory capital exposure – creating the conditions for agile decision-making while maintaining strong control and accountability.

### 4.2 Netherlands: Scenario-Based Governance

Dutch pension funds embed scenario thinking into their core decision-making. Leading funds such as ABP and PGGM conduct quarterly reviews of stress scenarios and align investment playbooks accordingly. These scenarios are not academic – they are actionable, linked to pre-agreed shifts in SAA, overlay implementation, and liquidity repositioning.

This structure is supported by internal governance that includes quant, actuarial, and strategy professionals working as cross-functional teams. They maintain flexibility in derivative usage and are mandated to respond tactically to rates, FX, credit, and inflation shocks.

### 4.3 UK: Solvency-Informed Innovation

UK insurers and pension funds operate under the shadow of Solvency II, which mandates rigorous capital attribution. Rather than resist it, many have used these rules to drive innovation. Legal & General and Aviva have adopted capital-efficient structured credit overlays and Matching Adjustment portfolios, supported by sophisticated internal models.

Governance models now permit risk budgeting by strategy. When capital or return conditions warrant, investment desks are authorised to deploy structured overlays – credit default swaps, bond forwards, inflation caps and floors. Risk reports are reviewed weekly, and trades are stress-tested using scenario simulations calibrated to LDI risk frameworks.

### 4.4 Australia: Capable Boards, Execution Gaps

Australian super funds have made significant strides in fiduciary governance. Boards are highly qualified, investment committees are well-resourced, and regulators have provided clear guidance. However, the gulf between strategic intent and tactical execution remains wide.

Few funds have internal structuring capability. Derivatives are rarely evaluated for capital impact. FX and interest rate exposures are mechanically hedged rather than tactically optimised. Execution remains outsourced, and performance drag from passive policies persists.

*The opportunity is to learn from international peers by building execution fluency within governance structures. Funds must move beyond best-practice committees to create best-in-class capital integration.*

## 5. Framework for Reform: Eight Strategic Levers

Transforming superannuation investment offices into strategic engines of value requires more than isolated improvements. It calls for an integrated approach spanning governance, skills, systems, and decision-making culture.

### 5.1 Governance Reform

Governance must evolve from fiduciary oversight to capital-oriented stewardship. Investment committees should broaden their mandate beyond compliance and peer benchmarking to explicitly include surplus maximisation, capital efficiency, and downside risk management.

#### Action steps

- Establish cross-functional governance teams (investment, treasury, actuarial, risk)
- Redesign board papers and IC dashboards to include solvency-adjusted metrics
- Schedule quarterly scenario planning sessions with investment response protocols
- Set KPIs linked to risk-adjusted return, capital deployment efficiency, and execution quality

### 5.2 Internal Capability Building

Execution quality and strategic flexibility depend on internal capability. This means hiring professionals with capital markets experience and creating execution-authorized roles within the investment office – not solely relying on consultants or external fund managers.

#### Action steps

- Recruit structurers, traders, and treasury professionals from banks or asset managers
- Create overlay desks with mandate authority to execute tactical trades
- Cross-train actuarial, investment, and operations teams to understand each other's constraints
- Introduce real-time investment "war rooms" during high volatility periods

### 5.3 Tooling Up: Infrastructure and Integration

Most super funds operate with fragmented or outdated systems. Reform demands investment in tools that unify portfolio analytics, cash forecasting, risk dashboards, collateral management, and execution monitoring.

#### Action steps

- Deploy TCA platforms across all execution desks
- Integrate ALM and PMS/OMS platforms to enable scenario-based allocation
- Build dashboards for daily liquidity, collateral, margin, and P&L tracking
- Implement APIs to connect external pricing, custodial data, and hedge valuations in real time

### 5.4 Execution Strategy: Beyond the 3-Quote Rule

Rigid compliance rules such as mandatory 3-quote execution limit tactical flexibility. Sophisticated funds adopt execution playbooks with pre-agreed discretion boundaries, enabling them to preserve alpha and avoid market signalling.

#### Action steps

- Segment trades by product and market depth to determine execution method
- Allow single-dealer or negotiated execution where market impact is high
- Use algorithmic execution or TWAP for larger trades
- Review execution quality monthly with performance and TCA data

### 5.5 Capital-Linked Investment Mandates

Investment mandates should include capital consumption as a design variable. Funds should quantify the opportunity cost of different exposures and measure strategies by surplus impact, not just return volatility.

#### Action steps

- Apply internal capital charges by asset class or overlay
- Introduce RAROC or EVA-style metrics into manager evaluations
- Tie SAA risk bands to capital budget thresholds
- Develop internal dashboards that quantify return per unit of capital consumed

## 5.6 Automation and Intelligent Infrastructure

As portfolios grow in complexity, automation becomes essential. Manual spreadsheets and static reports cannot support dynamic portfolios. Leading funds deploy OMS/EMS systems, smart order routers, and cloud-native dashboards that link execution, liquidity, and risk.

### Action steps

- Automate FX and rates execution with limit, stop-loss, and dynamic hedging strategies
- Pre-configure trade templates and overlay instructions based on scenario triggers
- Establish centralised risk data lakes to support real-time analytics
- Replace manual reporting with visualised dashboards for boards and regulators

## 5.7 Active Risk Management as a Strategic Advantage

Risk should not be limited to compliance. It should be a proactive, forward-looking input into portfolio design. Dynamic risk budgeting, stress-linked portfolio overlays, and marginal risk contribution analysis can help funds move from passivity to preparedness.

### Action steps

- Deploy real-time VaR, expected shortfall, and tail risk analytics
- Integrate actuarial and market risk scenarios into tactical investment planning
- Develop pre-agreed "war room" protocols for major shocks (interest rate spike, geopolitical conflict)
- Budget and monitor risk usage by strategy and team

## 5.8 Capital Management as a Strategic Lever

Although Australian super funds are not subject to regulatory capital constraints, capital management principles still apply. Viewing investment decisions through a capital lens reveals hidden inefficiencies and uncaptured value.

### Action steps

- Map capital impact of all overlays and hedge structures
- Create internal transfer pricing for liquidity usage and margin drag
- Evaluate strategies based on their ability to generate surplus, not just nominal return
- Integrate capital and liquidity planning into quarterly investment reviews

## 6. The Execution Gap: Where Para Bellum Adds Value

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Bridging the gap between strategic intent and market execution is the missing link for many superannuation funds. Para Bellum Advisors delivers a differentiated impact by embedding deep capital markets expertise directly into institutional workflows.

*Execution is not just a function. It is a strategic capability. Para Bellum enables super funds to act with precision, speed, and capital clarity – without dependence on conflicted counterparties or slow-moving consultants.*

### 6.1 Strategic Structuring Expertise

Para Bellum brings decades of front-line experience across structuring desks, trading floors, and treasury functions. The role is not to manage portfolios but to help build execution authority and deal fluency internally.

- Restructuring FX overlays using zero-cost collars and layered hedging strategies
- Engineering interest rate swap ladders aligned with ALM cashflows and curve risk
- Reviewing and re-negotiating CSAs to unlock collateral efficiency

### 6.2 Capital Efficiency Intelligence

Para Bellum helps super funds assess capital consumption, return drag, and surplus efficiency across mandates. The approach includes tools for internal liquidity pricing, RAROC measurement, and overlay calibration.

- Identifying low-capital strategies that preserve yield with lower risk drag
- Designing internal dashboards to visualise capital deployment per strategy
- Linking investment evaluation with solvency-adjusted outcomes

### 6.3 Tactical Execution Playbooks

Para Bellum does not replace your managers – it helps empower your internal teams. With execution playbooks, scenario triggers, and risk escalation ladders, your investment office moves from reactive to responsive.

- Designing trade protocols by product class (FX, IR swaps, CDS, bond forwards)
- Embedding playbooks with triggers (AUD spike, spread widening, policy shocks)
- Running TCA reviews to monitor slippage, cost of delay, and spread leakage

## 6.4 Independent and Conflict-Free Advice

Unlike banks or consultants, Para Bellum operates independently. Para Bellum does not sell products, manage assets, or accept commissions. The only allegiance is to your outcome.

- Independent of custodians, asset managers, and dealers
- Paid transparently on a project or retainer basis
- Outcome-driven, focusing on cost savings, alpha preservation, and risk clarity

## 6.5 Knowledge Transfer and Uplift

The Para Bellum engagement model emphasises capability building. The goal is not to stay embedded permanently – it is to build internal fluency so your teams can scale and sustain execution excellence.

- Live training for structuring and overlay implementation
- Collaborative scenario testing and playbook walkthroughs
- Governance uplift for investment committees and executive teams on capital-aware strategy

## Para Bellum Value Overview

Area	Status Quo	Para Bellum's Edge
FX and hedging	Passive roll forwards	<b>Dynamic overlays, optionality integration</b>
Execution	Compliance-driven	<b>Tactical playbooks, discretion protocols</b>
Private credit	Illiquidity blind spots	<b>Exit strategy design, valuation realism</b>
Risk	Static, siloed	<b>Integrated, scenario-based with ALM feedback</b>
Capital	Ignored in portfolio design	<b>Embedded in trade evaluation and return attribution</b>
Infrastructure	Manual, spreadsheet-reliant	<b>Automated dashboards, risk liquidity integration</b>

## 7. From Fiduciary to Forward-Looking

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The Australian superannuation system is world-class in terms of size, regulatory clarity, and governance ambition. But its investment offices now face a strategic crossroads.

To meet the demands of volatile markets, growing member expectations, and international competitiveness, super funds must evolve from fiduciary administrators into capital catalysts. That means rethinking what investment execution means – not just selecting managers, but architecting overlays, shaping risk dynamically, managing liquidity with intent, and measuring outcomes through a capital lens.

The structural inefficiencies that persist are real: passive FX hedging, illiquid credit blind spots, over-diversified portfolios, and execution bottlenecks. Global peers have already transformed their investment offices into agile, integrated capital engines. Australian funds can do the same.

*The transformation is not hypothetical. It is practical, actionable, and already underway in leading institutions across the globe. The future of the investment office is not compliance. It is command.*

Para Bellum Advisors stands ready to help lead that transformation – not with theory, but with tactical execution, real-world structuring, and capital-savvy design.

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### Disclaimer

This paper is provided for informational purposes only. It does not constitute investment advice, financial product advice, or a recommendation to transact. It is not tailored to any institution's objectives, financial position, risk appetite, or regulatory constraints. All examples are illustrative. Markets move, assumptions change, and outcomes will differ. Past performance is not a guide to future results. Any views expressed reflect Para Bellum Advisors' judgement at the time of writing and may change without notice. Institutions should obtain independent advice and conduct their own analysis before making any investment, hedging, or risk-management decision.

## Further Reading

Para Bellum Advisors publishes practitioner papers and CIO Briefs focused on real-world portfolio construction, risk and capital efficiency:

[www.parabellumadvisors.com/insights/](http://www.parabellumadvisors.com/insights/)

## About Para Bellum Advisors

Para Bellum Advisors is an independent advisory firm specialising in derivatives structuring, structured finance, balance sheet efficiency, and capital optimisation for institutional investors and corporate treasury teams.

The firm works with lean investment and treasury teams managing complex, multi-asset exposures – long-dated assets, illiquid portfolios, and non-standard risk profiles – where structural precision makes a material difference to outcomes.

Its engagements typically involve designing and re-engineering hedges across FX, rates, credit, equity, and volatility; identifying and releasing trapped capital; and providing embedded structuring capability where permanent headcount is neither practical nor warranted.

Para Bellum does not distribute products or earn transaction volume. Its value is in structure: how exposures are designed, how capital is consumed, and how portfolios behave when conditions deteriorate.

The firm is practitioner-led, drawing on three decades of experience across trading, structuring, and portfolio management in banks, asset managers, and institutional balance sheets in Asia-Pacific and global markets.

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