



PARA BELLUM ADVISORS

ASSET MANAGER · AUSTRALIAN SUPERANNUATION FUND

Synthetic Exposure Creation for a Constrained Mandate

SCENARIO TYPE	Australian Superannuation Fund – APRA-regulated, trustee-governed, MySuper-compatible
ASSET CLASS	Synthetic Emerging Market Local-Currency Debt within the Defensive Allocation
RISK FOCUS	Mandate constraints blocking economically attractive carry; governance survivability over legacy derivatives policy
PRIMARY OFFER	Structuring-as-a-Service™
RELEVANT SERVICES	Mandate-compliant structure design · Dealer RFP and pricing · Bespoke reference index construction · Trustee and risk committee narrative · Unwind and review framework

THE SITUATION

The fund was not underperforming. It was structurally capped.

By 2023, the investment team at a large Australian industry super fund (A\$90bn+ AUM) had reached a quiet but uncomfortable conclusion: the defensive portfolio was behaving exactly as designed – and delivering no more than it was allowed to. Nearly half the balance sheet was earning less than offshore peers by margins that compounded every year, for reasons unrelated to risk.

The external environment had shifted. Emerging market local-currency debt offered materially higher yields without equity-like risk. Correlation benefits were well understood. Duration profiles were compatible with defensive objectives. The investment case was not controversial. The constraint sat entirely in implementation.

HOW THE TRAP FORMS

The barrier was not APRA. It was the fund's own architecture.

Like many large super funds, the trust deed, derivatives policy, and defensive/growth classification framework had been written for a different era – before EM debt became mainstream institutional and before derivatives were routinely used to express exposure rather than merely reduce risk.

Direct EM local-currency bonds failed multiple tests simultaneously: non-AUD, non-defensive, and difficult to defend under trustee scrutiny. Unfunded derivatives were economically efficient but politically radioactive, easily characterised as speculative leverage. Rewriting the mandate was possible but slow, public, and costly – involving multiple committees, APRA engagement, and reputational risk.

The CIO summarised it: the carry exists, but touching it means reopening the entire governance stack.

WHAT TYPICALLY BREAKS

Technically compliant structures that nobody can explain

Anything that relies on nuance, explanation, or special context eventually breaks in a superannuation governance environment. Survivability is determined as much by how a structure is described and classified as by what it actually does.

One-off workarounds that cannot be repeated

Solutions that clear investment committee but unravel under audit, or cannot be resized without reopening controversy, destroy more value than they create. The fastest way to kill a structure in superannuation is to require someone to remember why it was clever.

Derivative overlays that trip on how they look

Economically benign structures can be characterised as speculative leverage if not designed from legal form outward. One uncomfortable IC question can unravel years of careful structuring.

FX exposure that belongs to no one operationally

Structures that introduce FX exposure without explicit ownership, monitoring, and reporting fail at audit or regulatory review regardless of their economic merits. Risk ownership must be as clean as the legal form.

THE STRUCTURAL INSIGHT

The mandate was: design something that looks boring on paper, even if the economics are doing the heavy lifting underneath. That constraint shaped every decision.

Unfunded derivatives were ruled out early – economically clean but institutionally indefensible. The only structure that survived both legal interpretation and trustee scrutiny was a funded, AUD-denominated security issued by an investment-grade counterparty, held and reported as a defensive asset, with EM debt economics linked underneath.

Off-the-shelf EM indices were rejected because concentration risks and governance discomfort would resurface later. A bespoke reference basket was constructed with explicit country caps, liquidity screens, FX transparency, and a quality bias aligned to defensive optics – marginally lower headline yield in exchange for explainability and repeatability.

Dealer selection was run as a competitive process that forced counterparties to decompose credit risk, FX hedging costs, and structuring margin explicitly. A deliberate trade-off: slightly lower yield for a structure that could be reused, resized, and governed over time. Yield that cannot be defended is not return – it is future friction.

INTENDED OUTCOMES

- ▶ Defensive portfolio earns more without being reclassified – carry improved without introducing growth-asset optics or reopening the trust deed.
- ▶ Structure survives contact with trustees, auditors, and APRA – governance built in by design, not bolted on after the fact.
- ▶ FX exposure explicitly owned, monitored, and explained – not discovered by an auditor six months after implementation.
- ▶ A repeatable pattern established – the fund now has a governed pathway to access offshore carry when economics justify it, without reopening governance infrastructure each time.
- ▶ Defensive portfolio optionality restored – the ceiling that had nothing to do with risk and everything to do with form is removed.

WHERE THIS APPLIES

Most relevant where legacy trust deed or derivatives policy constraints block economically attractive exposures; trustees prioritise defensibility and auditability over innovation; speed to exposure matters and mandate reform is slow or politically costly; and the fund is large enough that incremental carry on the defensive book is material in dollar terms.

Less relevant where mandates already permit derivatives for return generation; direct offshore investment is uncontroversial within the governance framework; or the portfolio is small enough that governance overhead dominates the incremental return.

TYPICAL ENGAGEMENT PATH

Structuring-as-a-Service™ – mandate interpretation, structure design, dealer coordination, governance-safe implementation.

Secondary: Bespoke index design, FX overlay alignment, trustee and risk committee narrative packs, replication and review framework.