Real disruption requires more than just a fresh image

By Eva Scheerlinck (https://investmentmagazine.com.au/author/eva-scheerlinck/) | 25/08/2017

In a challenging market, super fund providers need a lot more than slick marketing to deliver long-term risk-adjusted returns to their members.

What a difference a year makes. At the Australian Institute of Superannuation Trustees Superannuation Investment Conference in September 2016, few dared imagine the double-digit returns the average balanced super fund would achieve in the financial year ended June 30, 2017.

With global markets on heightened alert over Trump and Brexit, the general consensus was that investment returns would edge lower and stay there for some time. A survey of conference delegates revealed that 70 per cent feared their fund would underperform against its stated return objective.

So it was a wonderful outcome for super fund members when these fears proved unfounded.

Once again, it was profit-to-member funds that dominated the performance league tables – not only for the past 12 months but, more importantly, over the longer seven- and 10-year terms.

Rating agencies noted that many of the funds that excelled went against the trend that saw passive index-based strategies become increasingly popular, instead maintaining a higher allocation to unlisted assets.

In view of this, it is interesting to reflect on the recent emergence of super start-ups – the so-called “disruptors”.

With catchy brand names like Spaceship, GROW and Human Super, these new funds are aimed at a niche market of mostly millennials.

Sassy young female execs or bearded hipsters are spruiking a narrative that is all about controlling your super, ethical investing and an edgy customer experience. These start-ups typically have a huge social media presence – they host breakfast events, they provide giveaways and one even boasts a waiting list.

It’s a business model that seems to be paying off for the providers, at least for now. And while it is far too early to even second-guess the long-term outcome for signed-up members, a closer look at some of the new offerings reveals some red flags.

Fees matter

As several commentators have already noted, many of the new entrants have patchy disclosure records and very high fees that seem hard to justify given their mostly passive investment strategies. And beyond the flashy marketing, the investment options on offer are often not all tha unique.

Then there is the question of scale.

While government and the regulators are pushing for tighter rules with the view to driving mergers between traditional small and medium-sized MySuper funds, a start-up fund by its very nature cannot offer any economies of scale.

Of course, new entrants to super should be allowed time to grow, and the emergence of this nev style of fund has already delivered some positives. Many traditional players are now rethinking how they engage with millennials and putting a greater focus on social media. Some may even consider the disruption serious enough that they launch new products to specifically target millennials.

Truth in labelling

It is also worth noting the most successful funds aren’t necessarily those with the cheapest products, just as those that win the most disclosure awards don’t always deliver the best investment returns. Doubtless these new funds have some members who are willing to pay mor to have a social impact or to invest in companies that protect the environment, for example. But investing with great passion won’t necessarily deliver the promised social good or the best retirement outcome.

This is why good disclosure is so important in a compulsory super system. At the very least, it should include meaningful and digestible information about who runs the fund, where and how their super is invested, what the fees and charges are. And this information should be easily comparable with similar offerings from other funds.

Regulators also have a responsibility to ensure that what these new entrants offer is consistent with their marketing promises. When a fund claims to be investing ethically, are the investments in fact ethical? If a fund promises to invest in tech start-ups, is that where a reasonable portion o its investments ends up?

Consumers deserve good outcomes.

And while competition can shake up the system and bring down some windfall gains, the promis of something new needs to meet the reality – transparently.

Eva Scheerlinck is the chief executive of the Australian Institute of Superannuation Trustees. She was formerly a practising lawyer.

Global Highlights

1 If the gold asset fits, wear it (https://www.top1000funds.c... the-gold-asset-fits-wear-it/)

(https://www.top1000funds.com/opinion/2017/10/10/if-the-gold-asset-fits-wear-it/)

2 Strive for elegance on fees: consultant (https://www.top1000funds.co... 10/09/strive-for-elegance-on-funds-consultant/)

(https://www.to... for-elegance-on-funds-consultant/)

3 A more realistic look at risk (https://www.top1000f...red-homepage-posts/2017/10/06/a-more-realistic-look-at-risk/)

(https://www.top1000funds.com/featured-homepage-posts/2017/10/06/a-

4 Where future leaders will focus (https://www.top1000f... homepage-posts/2017/10/04/where-future-leaders-will-focus/)

(https://www.top1000funds.com/fe... homepage-posts/2017/10/... future-leaders-... focus/)

5 ESG industry needs better social skills (https://www.top1000funds.com/inside-homepage-articles-2/2017/10/04/esg-industry-needs-better-social-skills/)

(https://www.to... homepage-arti... 2/2017/10/04/e... industry-needs... better-social-sk...

brought to you by

top1000funds.com INVESTMENT STRATEGIES FOR THE WORLD'S LARGEST INSTITUTIONAL INVESTORS