



SUPER
RATINGS

Australian Institute of Superannuation Trustees

Fee and performance analysis

December 2015

CONTENTS

1.	INTRODUCTION	4
2.	FEE ANALYSIS ACROSS MYSUPER AND CHOICE PRODUCTS	5
2.1.	MYSUPER PRODUCTS.....	5
2.1.1.	MEDIAN FEES ACROSS SECTORS.....	5
2.1.2.	MEDIAN FEES ACROSS VARYING ACCOUNT BALANCES	5
2.2.	CHOICE PRODUCTS	5
2.2.1.	MEDIAN FEES ACROSS SECTORS.....	6
2.2.1.1.	HIGH GROWTH OPTIONS	6
2.2.1.2.	GROWTH OPTIONS	6
2.2.1.3.	BALANCED OPTIONS	6
2.2.1.4.	CONSERVATIVE BALANCED OPTIONS	6
2.2.1.5.	CAPITAL STABLE OPTIONS	7
2.2.1.6.	SECURE OPTIONS	7
2.2.1.7.	AUSTRALIAN SHARE OPTIONS	7
2.2.1.8.	INTERNATIONAL SHARE OPTIONS.....	8
2.2.1.9.	PROPERTY OPTIONS.....	8
2.2.1.10.	DIVERSIFIED FIXED INTEREST OPTIONS.....	8
2.2.1.11.	CASH OPTIONS	8
2.2.2.	MEDIAN FEES ACROSS VARYING ACCOUNT BALANCES	9
2.2.2.1.	HIGH GROWTH OPTIONS	9
2.2.2.2.	GROWTH OPTIONS	9
2.2.2.3.	BALANCED OPTIONS	9
2.2.2.4.	CONSERVATIVE BALANCED OPTIONS	9
2.2.2.5.	CAPITAL STABLE OPTIONS	10
2.2.2.6.	SECURE OPTIONS	10
2.2.2.7.	AUSTRALIAN SHARE OPTIONS	10
2.2.2.8.	INTERNATIONAL SHARE OPTIONS.....	10
2.2.2.9.	PROPERTY OPTIONS.....	10
2.2.2.10.	DIVERSIFIED FIXED INTEREST OPTIONS.....	11
2.2.2.11.	CASH OPTIONS	11
2.3.	ACTIVITY-BASED FEES.....	11
3.	ANALYSIS OF ASSET ALLOCATIONS ACROSS MYSUPER AND CHOICE PRODUCTS	12
3.1.	MYSUPER PRODUCTS.....	13
3.2.	CHOICE PRODUCTS	14
3.2.1.	HIGH GROWTH OPTIONS	14
3.2.2.	GROWTH OPTIONS	14
3.2.3.	BALANCED OPTIONS	15
3.2.4.	CONSERVATIVE BALANCED OPTIONS	15
3.2.5.	CAPITAL STABLE OPTIONS	16
3.2.6.	SECURE OPTIONS	17
4.	INVESTMENT PERFORMANCE COMPARISONS.....	18
4.1.	MYSUPER PRODUCTS.....	18
4.2.	CHOICE PRODUCTS	18
4.2.1.	HIGH GROWTH OPTIONS	18
4.2.2.	GROWTH OPTIONS	18
4.2.3.	BALANCED OPTIONS	19
4.2.4.	CONSERVATIVE BALANCED OPTIONS	19
4.2.5.	CAPITAL STABLE OPTIONS	19
4.2.6.	SECURE OPTIONS	19
4.2.7.	AUSTRALIAN SHARE OPTIONS	19

4.2.8.	INTERNATIONAL SHARE OPTIONS.....	20
4.2.9.	PROPERTY OPTIONS.....	20
4.2.10.	DIVERSIFIED FIXED INTEREST OPTIONS.....	20
4.2.11.	CASH OPTIONS	20
5.	DISCLOSURE OF FEES AND PERFORMANCE FOR MYSUPER AND CHOICE OPTIONS	21
5.1.	POOR DISCLOSURE OF FEES REMAINS A CRITICAL ISSUE FOR COMPARABILITY.....	21
5.2.	CROSS-SUBSIDISATION STILL EVIDENT WITHIN MYSUPER AND ACROSS MYSUPER AND CHOICE PRODUCTS	21
5.3.	DIFFERENCES IN HOW DIFFERENT FUND TYPES DISCLOSE RETURNS.....	22
5.3.1.	METHOD 1: NET OF ALL IMPLICIT FEES AND NET OF TAXES.....	22
5.3.2.	METHOD 2: NET OF FEE (EXCLUDING ALL NON-INVESTMENT RELATED FEES) BUT NET OF TAXES	22
5.4.	DISPLAY OF RETURNS (MEDIAN RETURNS VERSUS WEIGHTED AVERAGE RETURNS).....	23

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1. Introduction

SuperRatings have been engaged by the Australian Institute of Superannuation Trustees (“AIST”) to undertake analysis of the investment performance, fee structures and asset allocation of superannuation products across the industry, in order to evaluate the differences between the Not for Profit (“NFP”) sector and the Retail Master Trust (“RMT”) sector.

Specifically, this report and its associated analysis and commentary will address the following areas:

1. Fee data from SuperRatings’ database of superannuation funds (“SMART”) for MySuper products, including member, administration, investment, activity fees and the impact of these fees on different account balances, showing the NFP and RMT median relative to the industry median;
2. Fee data from SMART for Choice products, including member, administration, investment, activity fees and the impact of these fees on different account balances, showing the NFP and RMT median relative to the industry median;
3. Asset allocation of the MySuper products and Choice products and the respective Funds Under Management relative to the industry median for High Growth (91-100), Growth (77-90), Balanced (60-76), Conservative Balanced (41-59), Capital Stable (20-40), Secure (0-19), Australian Shares, International Shares, Property, Diversified Fixed Interest and Cash as per SuperRatings Fund Crediting Rate Survey; and
4. Provide the investment performance over the past one, three, five, seven and ten years and a comparison of these against industry medians for each of the investment options above.

This report will also provide commentary in relation to each of the following items:

- a) Benchmark investment fees of investment options to show where non-disclosure or cross-subsidisation may be ‘hidden’ in both MySuper and Choice options, including by sector (industry; retail).
- b) Examining how returns are shown (median returns versus weighted average returns).
- c) Differences in how different fund types disclose returns, taking into account fee issues mentioned in (a) above.

In relation to the analysis, SuperRatings utilised performance data for periods ending 30 September 2015, as the majority of funds declare a hard close price at the end of a quarter, whereas monthly data often utilises interim rates. In addition, the sample set is always greater on a quarterly basis, with the majority of funds reporting full performance data at the end of each quarter.

The fee data utilised within the report represents the latest available information, which is all Product Disclosure Statement updates to 18 December 2015.

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The remainder of this report summarises the findings of our analysis.

2. Fee analysis across MySuper and Choice products

SuperRatings' analysis suggested that there remains a reasonable fee differential between the NFP and RMT sector, particularly in relation to Choice products, whereas there remains far smaller differences across MySuper products.

2.1. MySuper products

The gap between the NFP and RMT fees declined significantly subsequent to the introduction of MySuper, with the median fee differential dropping from \$427 in the pre MySuper environment to only \$99 on a \$50,000 account balance. The following analysis details the current positioning of fees across the two sectors:

2.1.1. Median fees across sectors

The following table outlines fee medians across the NFP and RMT sector in relation to ongoing fees that are charged to members of MySuper products. The fees utilise a median across all MySuper products, regardless of the default investment option utilised, albeit less than 10% of MySuper products offer a non-Balanced style (growth assets of between 60% and 76%) investment option as their default:

Sector	Member Administration Fee	Asset-based Administration Fee	Investment Management Fee	Total Fee	Fee Premium
NFP	\$78.00	0.18%	0.64%	\$78.00 + 0.82%	
RMT	\$79.00	0.55%	0.53%	\$79.00 + 1.05%	28.0%
All Fund	\$78.00	0.22%	0.61%	\$78.00 + 0.83%	

As can be seen from the above table, there is little difference between the member administration fees for the NFP and RMT sectors. Large differences are evident between both the asset based administration fees (which the NFP sector remains more competitively priced) and investment management fees, whereby the RMT sector maintains a lower fee.

2.1.2. Median fees across varying account balances

The following table compares MySuper fees across the two sectors based upon a range of account balances, in order to understand the impact of member and asset based fee differentials:

Sector	\$5,000	\$50,000	\$250,000
NFP	\$118.00	\$501.00	\$2,191.00
RMT	\$134.00	\$600.00	\$2,760.00
All Fund	\$122.00	\$524.00	\$2,296.00

As is evident from the analysis within the above table, the NFP sector maintains reasonably lower median fees across all account balances than the RMT sector. As the account balance increases, the fees for the NFP sector become more competitive, given the lower overall asset-based fees charged. Whilst capping of fees does impact the fees on higher account balances within the RMT sector, the impact is immaterial in terms of the overall median for this sector.

2.2. Choice products

Unlike the fee reductions seen within MySuper products during 2014, Choice products have shown minimal changes to fee structures in recent years, with only small decreases being witnessed. The following tables outline the median fee levels across the range of investment options within choice products:

2.2.1. Median fees across sectors

The following tables provide comparisons between the NFP and RMT choice product fees across the variety of investment options available as well as against overall industry medians:

2.2.1.1. High Growth options

The following table illustrates the median fees across sectors for High Growth investment options, which are those that hold between 91 and 100% in growth assets:

Sector	Member Administration Fee	Asset-based Administration Fee	Investment Management Fee	Total Fee	Fee Premium
NFP	\$78.00	0.15%	0.68%	\$78.00 + 0.83%	
RMT	\$78.00	0.65%	0.95%	\$78.00 + 1.60%	92.8%
All Fund	\$78.00	0.28%	0.76%	\$78.00 + 1.04%	

2.2.1.2. Growth options

The following table illustrates the median fees across sectors for Growth investment options, which are those that hold between 77% and 90% in growth assets:

Sector	Member Administration Fee	Asset-based Administration Fee	Investment Management Fee	Total Fee	Fee Premium
NFP	\$78.00	0.13%	0.70%	\$78.00 + 0.83%	
RMT	\$73.00	0.61%	0.96%	\$73.00 + 1.57%	89.2%
All Fund	\$78.00	0.28%	0.77%	\$78.00 + 1.05%	

2.2.1.3. Balanced options

The following table illustrates the median fees across sectors for Balanced investment options, which are those that hold between 60% and 76% in growth assets:

Sector	Member Administration Fee	Asset-based Administration Fee	Investment Management Fee	Total Fee	Fee Premium
NFP	\$78.00	0.15%	0.65%	\$78.00 + 0.80%	
RMT	\$73.00	0.64%	0.84%	\$73.00 + 1.48%	85.0%
All Fund	\$78.00	0.28%	0.70%	\$78.00 + 0.98%	

2.2.1.4. Conservative Balanced options

The following table illustrates the median fees across sectors for Conservative Balanced investment options, which are those that hold between 41% and 59% in growth assets:

Sector	Member Administration Fee	Asset-based Administration Fee	Investment Management Fee	Total Fee	Fee Premium
NFP	\$78.00	0.15%	0.54%	\$78.00 + 0.69%	
RMT	\$73.00	0.67%	0.77%	\$73.00 + 1.44%	108.7%
All Fund	\$78.00	0.28%	0.58%	\$78.00 + 0.86%	

2.2.1.5. Capital Stable options

The following table illustrates the median fees across sectors for Capital Stable investment options, which are those that hold between 20% and 40% in growth assets:

Sector	Member Administration Fee	Asset-based Administration Fee	Investment Management Fee	Total Fee	Fee Premium
NFP	\$78.00	0.15%	0.43%	\$78.00 + 0.58%	
RMT	\$73.00	0.70%	0.73%	\$73.00 + 1.43%	146.5%
All Fund	\$78.00	0.25%	0.48%	\$78.00 + 0.73%	

2.2.1.6. Secure options

The following table illustrates the median fees across sectors for Secure investment options, which are those that hold between 0% and 19% in growth assets:

Sector	Member Administration Fee	Asset-based Administration Fee	Investment Management Fee	Total Fee	Fee Premium
NFP	\$78.00	0.20%	0.18%	\$78.00 + 0.38%	
RMT	\$57.00	0.73%	0.60%	\$57.00 + 1.33%	250.0%
All Fund	\$73.00	0.35%	0.36%	\$73.00 + 0.71%	

2.2.1.7. Australian Share options

The following table illustrates the median fees across sectors for Australian Share investment options:

Sector	Member Administration Fee	Asset-based Administration Fee	Investment Management Fee	Total Fee	Fee Premium
NFP	\$78.00	0.18%	0.54%	\$78.00 + 0.72%	
RMT	\$73.00	0.70%	0.84%	\$73.00 + 1.54%	113.9%
All Fund	\$78.00	0.29%	0.61%	\$78.00 + 0.90%	

2.2.1.8. International Share options

The following table illustrates the median fees across sectors for International Share investment options:

Sector	Member Administration Fee	Asset-based Administration Fee	Investment Management Fee	Total Fee	Fee Premium
NFP	\$78.00	0.17%	0.62%	\$78.00 + 0.79%	
RMT	\$75.00	0.74%	0.92%	\$75.00 + 1.66%	110.1%
All Fund	\$78.00	0.29%	0.72%	\$78.00 + 1.01%	

2.2.1.9. Property options

The following table illustrates the median fees across sectors for Property investment options:

Sector	Member Administration Fee	Asset-based Administration Fee	Investment Management Fee	Total Fee	Fee Premium
NFP	\$78.00	0.15%	0.67%	\$78.00 + 0.82%	
RMT	\$78.00	0.77%	0.81%	\$78.00 + 1.58%	92.7%
All Fund	\$78.00	0.24%	0.70%	\$78.00 + 0.94%	

2.2.1.10. Diversified Fixed Interest options

The following table illustrates the median fees across sectors for Diversified Fixed Interest investment options:

Sector	Member Administration Fee	Asset-based Administration Fee	Investment Management Fee	Total Fee	Fee Premium
NFP	\$78.00	0.13%	0.32%	\$78.00 + 0.45%	
RMT	\$76.00	0.73%	0.64%	\$76.00 + 1.37%	204.4%
All Fund	\$78.00	0.21%	0.42%	\$78.00 + 0.63%	

2.2.1.11. Cash options

The following table illustrates the median fees across sectors for Cash investment options:

Sector	Member Administration Fee	Asset-based Administration Fee	Investment Management Fee	Total Fee	Fee Premium
NFP	\$78.00	0.15%	0.09%	\$78.00 + 0.24%	
RMT	\$73.00	0.61%	0.35%	\$73.00 + 0.96%	300.0%
All Fund	\$78.00	0.23%	0.18%	\$78.00 + 0.41%	

As can be seen from the above tables, the fee differential between NFP and RMT Choice products remains significant across every investment option type analysed.

2.2.2. Median fees across varying account balances

The following tables compare fees across the two sectors based upon a range of account balances, in order to understand the impact of member and asset based fee differentials across each investment option type.

2.2.2.1. High Growth options

Sector	\$5,000	\$50,000	\$250,000
NFP	\$113.00	\$503.00	\$2,209.00
RMT	\$182.00	\$1,046.00	\$4,448.00
All Fund	\$133.00	\$602.00	\$2,750.00

2.2.2.2. Growth options

Sector	\$5,000	\$50,000	\$250,000
NFP	\$116.00	\$487.00	\$2,133.00
RMT	\$166.00	\$995.00	\$4,307.00
All Fund	\$131.00	\$620.00	\$2,777.00

2.2.2.3. Balanced options

Sector	\$5,000	\$50,000	\$250,000
NFP	\$117.00	\$469.00	\$2,102.00
RMT	\$162.00	\$948.00	\$4,025.00
All Fund	\$124.00	\$588.00	\$2,608.00

2.2.2.4. Conservative Balanced options

Sector	\$5,000	\$50,000	\$250,000
NFP	\$105.00	\$402.00	\$1,675.00
RMT	\$165.00	\$910.00	\$3,923.00
All Fund	\$128.00	\$558.00	\$2,510.00

2.2.2.5. Capital Stable options

Sector	\$5,000	\$50,000	\$250,000
NFP	\$100.00	\$357.00	\$1,503.00
RMT	\$161.00	\$870.00	\$3,725.00
All Fund	\$115.00	\$478.00	\$2,087.00

2.2.2.6. Secure options

Sector	\$5,000	\$50,000	\$250,000
NFP	\$91.00	\$255.00	\$1,077.00
RMT	\$146.00	\$854.00	\$3,623.00
All Fund	\$121.00	\$581.00	\$2,561.00

2.2.2.7. Australian Share options

Sector	\$5,000	\$50,000	\$250,000
NFP	\$109.00	\$413.00	\$1,753.00
RMT	\$175.00	\$985.00	\$4,410.00
All Fund	\$131.00	\$603.00	\$2,703.00

2.2.2.8. International Share options

Sector	\$5,000	\$50,000	\$250,000
NFP	\$115.00	\$453.00	\$1,975.00
RMT	\$175.00	\$1,031.00	\$4,705.00
All Fund	\$129.00	\$644.00	\$2,928.00

2.2.2.9. Property options

Sector	\$5,000	\$50,000	\$250,000
NFP	\$118.00	\$498.00	\$2,169.00
RMT	\$173.00	\$980.00	\$4,388.00
All Fund	\$127.00	\$603.00	\$2,648.00

2.2.2.10. Diversified Fixed Interest options

Sector	\$5,000	\$50,000	\$250,000
NFP	\$100.00	\$298.00	\$1,178.00
RMT	\$156.00	\$895.00	\$4,016.00
All Fund	\$113.00	\$394.00	\$1,594.00

2.2.2.11. Cash options

Sector	\$5,000	\$50,000	\$250,000
NFP	\$87.00	\$215.00	\$750.00
RMT	\$146.00	\$673.00	\$2,947.00
All Fund	\$97.00	\$302.00	\$1,214.00

Similar to the outcomes in respect of MySuper products, as can be seen from the analysis within the above tables, the NFP sector maintains materially lower median fees across all account balances than the RMT sector. As the account balance increases, the fees for the NFP sector continue to become more competitive, given the lower overall asset-based fees charged.

In addition, we note that substantial differences remain between MySuper and Choice product fees, particularly within the RMT sector, even where the underlying asset allocations of the MySuper and Choice options are almost identical.

2.3. Activity-based fees

Activity-based fees are consistent across both MySuper and Choice products and as such, there is no need to differentiate between the various product types. The following table shows the median activity fees charged by funds across the NFP and RMT sectors, as well as providing overall industry median for each fee:

Fee Type	NFP Median	RMT Median	All Fund Median
Withdrawal fee	\$55.00	\$70.00	\$60.00
Termination fee	\$75.00	\$75.00	\$75.00
Switching fee	\$30.00	\$31.00	\$30.00
Family Law request	\$103.00	\$95.00	\$100.00
Family Law split	\$100.00	\$200.00	\$100.00
Buy/Sell spread	0.20%	0.30%	0.20%

It is evident that median NFP activity fees generally remain below the median RMT activity fees, albeit the overall difference is marginal for the majority of activity fees charged. With the exception of the family law request fee, the median NFP fee is below or equivalent to the median RMT activity fee across each of the fee types assessed.

2.4. Composition of assets across the superannuation industry

The table below illustrates the levels of assets currently held within NFP and RMT across both MySuper and Choice products:

Industry sector	% of total assets - NFP	% of total assets - RMT
MySuper	65.3%	18.4%
Choice	34.7%	82.6%

On the basis that there remains a large fee differential between the MySuper and Choice products within the RMT sector, SuperRatings notes that most members within this sector are likely to be paying materially higher fees in relation to their superannuation accounts than those sitting within the lower fee MySuper products.

Given there is minimal difference in MySuper and Choice fees within the NFP sector and the majority of members are sitting within the MySuper products, this poses less of an issue for this sector.

2.5. Trends in relation to fees

There is no doubt that the advent of MySuper has resulted in an overall decrease in fees across the industry, with these products now maintaining materially lower overall fee structures than their Choice counterparts. Whilst the NFP sector has generally retained similar fee structures between MySuper and Choice, the RMT sector has achieved substantial fee reductions for their MySuper products, in comparison to their Choice products.

This is mainly due to reductions by the RMT sector in administration fees as well as material falls in investment management fees, driven by many providers increasing allocations to passively invested portfolios, whereas most NFPs have maintained higher allocations to actively managed assets.

As is evident from the table in Section 2.1.1, investment management fees for RMT are for the first time lower than their NFP peers, albeit a materially higher average administration fee offsets the lower investment fee, such that NFP continue to display lower overall fees.

2.6. Glide path MySuper options

We also note the current fee structures associated with “Glide Path” style investment options, which are utilised by a number of funds within their MySuper products, provide little to no guidance regarding future fees that may be payable once investment changes are made to each glide path. The benefits of a glide path style option is that members remain within the same investment cohort throughout their lifetime and the fund manages the investment allocations (generally by reducing allocations to growth assets as members within the cohort get older) such that members are not switched between cohorts, which is likely to result in transaction costs being incurred.

The key issue with these options is that fee disclosure generally remains poor, as disclosure currently only reflects the existing asset allocation and manager mix. Whilst there has not been sufficient time to assess these options as they are, in the main, less than two years old, we will await with interest the manner in which fees are adjusted as underlying allocations to growth assets reduce in future years.

3. Analysis of asset allocations across MySuper and Choice products

With the variability in asset allocations across products, SuperRatings utilises a consistent measure in respect of both lifecycle investment options and standard diversified options across MySuper and Choice products.

3.1. MySuper products

The following table outlines the average asset allocations for MySuper products across the superannuation industry:

Asset class	NFP Average	RMT Average	All Fund Average
Australian shares	26.7%	29.6%	27.7%
International shares	25.3%	24.8%	25.2%
Property – growth	7.6%	8.2%	7.8%
Alternatives – growth	10.7%	5.7%	9.1%
Other growth assets	0.6%	1.1%	0.7%
Total growth assets	70.9%	69.4%	70.5%
Fixed interest	16.2%	21.4%	17.8%
Property – defensive	1.9%	0.0%	1.3%
Alternatives – defensive	5.7%	2.9%	4.8%
Cash	4.6%	6.2%	5.1%
Other defensive assets	0.7%	0.1%	0.5%
Total defensive assets	29.1%	30.6%	29.5%

As can be seen from the table above, overall allocations to growth assets across MySuper products indicate that NFP funds maintain a higher allocation to growth assets than their RMT counterparts. Whilst the overall allocation to shares is reasonably similar at 52.0% for NFP and 54.4% for RMT, the differential between Australian and international is material, with RMT's holding on average 3.2% more in domestic shares. The key differential between the sectors is the allocation to Alternatives – Growth, where the NFP sector holds almost double the RMT allocation at 10.7% and 5.7% respectively.

In terms of defensive asset allocations, once again, the NFP sector maintains a higher allocation to Alternatives – defensive at 5.7% against the RMT allocation of 2.9%. This is at the expense of fixed interest and cash, which the RMT sector holds far greater allocations than that of the NFP sector.

3.2. Choice products

The following tables detail the asset allocations across the variety of choice options tracked by SuperRatings:

3.2.1. High Growth options

Asset class	NFP Average	RMT Average	All Fund Average
Australian shares	41.5%	45.1%	43.3%
International shares	40.8%	41.3%	41.0%
Property – growth	4.2%	5.7%	5.0%
Alternatives – growth	10.4%	5.2%	7.8%
Other growth assets	0.7%	0.1%	0.4%
Total growth assets	97.6%	97.4%	97.5%
Fixed interest	0.2%	0.2%	0.2%
Property – defensive	0.6%	0.2%	0.4%
Alternatives – defensive	1.1%	0.9%	1.0%
Cash	0.5%	0.9%	0.7%
Other defensive assets	0.0%	0.4%	0.2%
Total defensive assets	2.4%	2.6%	2.5%

3.2.2. Growth options

Asset class	NFP Average	RMT Average	All Fund Average
Australian shares	31.4%	37.3%	34.5%
International shares	30.8%	31.9%	31.4%
Property – growth	7.0%	7.8%	7.4%
Alternatives – growth	14.5%	7.1%	10.6%
Other growth assets	0.6%	0.2%	0.4%
Total growth assets	84.3%	84.3%	84.3%
Fixed interest	5.8%	9.9%	8.0%
Property – defensive	1.7%	0.1%	0.9%

Asset class	NFP Average	RMT Average	All Fund Average
Alternatives – defensive	5.1%	2.7%	3.8%
Cash	2.2%	2.6%	2.4%
Other defensive assets	0.9%	0.4%	0.6%
Total defensive assets	15.7%	15.7%	15.7%

3.2.3. Balanced options

Asset class	NFP Average	RMT Average	All Fund Average
Australian shares	26.0%	30.2%	28.0%
International shares	24.9%	24.7%	24.8%
Property – growth	7.6%	7.0%	7.3%
Alternatives – growth	11.4%	6.1%	8.8%
Other growth assets	0.7%	0.5%	0.6%
Total growth assets	70.6%	68.5%	69.5%
Fixed interest	16.0%	22.6%	19.2%
Property – defensive	1.9%	0.1%	1.1%
Alternatives – defensive	5.7%	2.7%	4.3%
Cash	4.2%	5.7%	4.9%
Other defensive assets	1.6%	0.4%	1.0%
Total defensive assets	29.4%	31.5%	30.5%

3.2.4. Conservative Balanced options

Asset class	NFP Average	RMT Average	All Fund Average
Australian shares	17.7%	21.3%	19.7%
International shares	16.9%	18.1%	17.5%
Property – growth	6.8%	6.1%	6.4%
Alternatives – growth	9.5%	4.3%	6.7%

Asset class	NFP Average	RMT Average	All Fund Average
Other growth assets	0.3%	0.3%	0.3%
Total growth assets	51.2%	50.1%	50.6%
Fixed interest	24.3%	34.4%	29.8%
Property – defensive	1.6%	0.2%	0.9%
Alternatives – defensive	8.6%	3.1%	5.6%
Cash	11.7%	11.7%	11.6%
Other defensive assets	2.6%	0.5%	1.5%
Total defensive assets	48.8%	49.9%	49.4%

3.2.5. Capital Stable options

Asset class	NFP Average	RMT Average	All Fund Average
Australian shares	10.9%	12.1%	11.4%
International shares	9.8%	8.1%	9.1%
Property – growth	5.2%	4.5%	4.9%
Alternatives – growth	5.7%	2.9%	4.4%
Other growth assets	0.3%	0.2%	0.3%
Total growth assets	31.9%	27.8%	30.1%
Fixed interest	32.4%	44.0%	37.7%
Property – defensive	1.4%	0.1%	0.8%
Alternatives – defensive	6.2%	2.6%	4.6%
Cash	25.5%	24.7%	25.1%
Other defensive assets	2.6%	0.8%	1.7%
Total defensive assets	68.1%	72.2%	69.9%

3.2.6. Secure options

Asset class	NFP Average	RMT Average	All Fund Average
Australian shares	0.7%	1.6%	1.3%
International shares	0.7%	1.1%	0.9%
Property – growth	0.7%	0.7%	0.7%
Alternatives – growth	0.5%	0.1%	0.3%
Other growth assets	0.0%	0.0%	0.0%
Total growth assets	2.7%	3.5%	3.2%
Fixed interest	19.0%	38.6%	31.3%
Property – defensive	0.0%	0.1%	0.0%
Alternatives – defensive	1.4%	2.2%	1.9%
Cash	62.1%	54.0%	57.0%
Other defensive assets	14.9%	1.6%	6.6%
Total defensive assets	97.4%	96.5%	96.8%

As can be seen from the tables above, overall allocations to growth assets across the various diversified choice investment options are higher amongst NFP funds in comparison to their RMT competitors. Once again, the key differential between the sectors is the allocation to Alternatives – Growth and Alternatives Defensive, where the NFP sector holds significantly larger allocations across almost every choice investment option. This is generally at the expense of allocations to listed markets including Australian and international shares and property.

With listed markets showing substantial volatility since the Global Financial Crisis in 2008 and 2009 and more recently in 2015, the higher allocations by the NFP sector to alternative assets has certainly benefitted overall performance, which is shown in Section 4 of this report.

We also note that currency movements have played a significant role in performance in recent years, with those funds that maintained a majority unhedged position against the US Dollar showing outperformance. The approaches to currency between the NFP and RMT sectors have shown divergence in recent years, with a number of RMT moving to a passive currency hedge, generally maintaining a benchmark 50/50 hedged position. The NFP sector, however, have been far more actively in terms of currency management, with the use of overlay managers to monitor and move currency positions becoming far more prevalent within this sector of the industry.

4. Investment performance comparisons

The following tables compare the investment performance of all of the abovementioned investment options across one, three, five, seven and ten year periods to 30 September 2015 based upon data collected by SuperRatings over these periods. In line with SuperRatings methodology, all investment returns are shown on a net of all implicit administration fees, investment fees and tax, such that they reflect the actual returns achieved by members over the various periods.

4.1. MySuper products

On the basis that MySuper products and their supporting investment options have generally only been available in the market for a single full year period, we have provided the median return data for the short-term. Given the volatility in returns over a one-year period, we do not suggest any meaningful conclusions can be drawn from this data, however, provide it for information purposes only:

	1-month	3 month	1-year
NFP Median	-0.94%	-1.52%	5.55%
RMT Median	-1.09%	-1.16%	5.16%
All Fund Median	-0.94%	-1.45%	5.47%

4.2. Choice products

On the basis that Choice products have been existence for many years, we provide the following performance comparisons in relation to each of the investment options tracked by SuperRatings. All returns are provided on the same basis as the MySuper products, being net of all implicit administration fees, investment fees and tax, such that they reflect the actual returns achieved by members over the various periods

4.2.1. High Growth options

	1-year	3-years (p.a.)	5-years (p.a.)	7-years (p.a.)	10-years (p.a.)
NFP Median	6.14%	12.74%	9.12%	6.79%	5.60%
RMT Median	5.86%	11.80%	8.04%	5.82%	4.14%
All Fund Median	5.92%	12.48%	8.68%	6.40%	5.16%

4.2.2. Growth options

	1-year	3-years (p.a.)	5-years (p.a.)	7-years (p.a.)	10-years (p.a.)
NFP Median	6.21%	11.71%	8.84%	6.90%	5.95%
RMT Median	5.60%	11.11%	7.96%	5.83%	4.17%
All Fund Median	6.06%	11.42%	8.34%	6.30%	5.36%

4.2.3. Balanced options

	1-year	3-years (p.a.)	5-years (p.a.)	7-years (p.a.)	10-years (p.a.)
NFP Median	5.82%	10.37%	8.27%	6.49%	5.88%
RMT Median	5.28%	9.20%	7.18%	5.51%	4.21%
All Fund Median	5.60%	9.93%	7.64%	6.17%	5.47%

4.2.4. Conservative Balanced options

	1-year	3-years (p.a.)	5-years (p.a.)	7-years (p.a.)	10-years (p.a.)
NFP Median	5.09%	8.42%	7.29%	6.39%	5.75%
RMT Median	4.90%	7.65%	6.22%	5.27%	4.15%
All Fund Median	5.04%	7.90%	6.80%	5.96%	4.99%

4.2.5. Capital Stable options

	1-year	3-years (p.a.)	5-years (p.a.)	7-years (p.a.)	10-years (p.a.)
NFP Median	4.57%	6.20%	6.11%	5.57%	5.45%
RMT Median	4.04%	5.64%	5.20%	4.79%	4.08%
All Fund Median	4.47%	6.04%	5.77%	5.42%	5.14%

4.2.6. Secure options

	1-year	3-years (p.a.)	5-years (p.a.)	7-years (p.a.)	10-years (p.a.)
NFP Median	2.53%	3.12%	3.69%	3.84%	4.17%
RMT Median	1.50%	2.82%	2.66%	3.52%	3.25%
All Fund Median	2.37%	2.98%	3.61%	3.68%	4.16%

4.2.7. Australian Share options

	1-year	3-years (p.a.)	5-years (p.a.)	7-years (p.a.)	10-years (p.a.)
NFP Median	0.90%	9.91%	7.05%	6.62%	5.87%
RMT Median	-0.73%	9.00%	5.67%	5.46%	5.01%
All Fund Median	0.31%	9.49%	6.20%	6.19%	5.62%

4.2.8. International Share options

	1-year	3-years (p.a.)	5-years (p.a.)	7-years (p.a.)	10-years (p.a.)
NFP Median	10.21%	17.02%	11.87%	7.62%	5.19%
RMT Median	16.41%	20.18%	12.34%	6.64%	3.84%
All Fund Median	12.55%	18.74%	12.00%	7.22%	4.84%

4.2.9. Property options

	1-year	3-years (p.a.)	5-years (p.a.)	7-years (p.a.)	10-years (p.a.)
NFP Median	9.89%	9.14%	8.69%	4.97%	6.42%
RMT Median	13.35%	12.78%	10.55%	4.23%	2.45%
All Fund Median	11.03%	10.40%	9.16%	4.65%	4.01%

4.2.10. Diversified Fixed Interest options

	1-year	3-years (p.a.)	5-years (p.a.)	7-years (p.a.)	10-years (p.a.)
NFP Median	3.81%	4.25%	5.75%	6.65%	5.87%
RMT Median	3.34%	3.20%	4.35%	4.87%	4.23%
All Fund Median	3.61%	3.95%	5.25%	6.22%	5.44%

4.2.11. Cash options

	1-year	3-years (p.a.)	5-years (p.a.)	7-years (p.a.)	10-years (p.a.)
NFP Median	2.24%	2.60%	3.19%	3.35%	3.98%
RMT Median	1.52%	1.70%	2.24%	2.73%	2.94%
All Fund Median	2.12%	2.36%	3.06%	3.28%	3.87%

Based upon SuperRatings analysis, we note that the median NFP fund has outperformed the median RMT fund over every seven and ten-year period to 30 September 2015 in respect of each of the Choice product investment options assessed.

The median NFP fund has also outperformed the median RMT fund over each one, three and five-year period assessed in respect of each investment option, with the exception of the International shares and Property options, in which the median RMT fund has shown outperformance against the median NFP fund.

Whilst there remains a material difference between the median returns of the NFP and RMT sectors, SuperRatings notes that the quantum of the performance differential has reduced between the sectors over the last three-years, as listed markets have rallied.

5. Disclosure of fees and performance for MySuper and Choice Options

SuperRatings remains concerned with the poor level of disclosure of fees across the industry and also recognises that a number of cross-subsidies continue to exist within products and between investment options. We provide the following views on each of these topics below:

5.1. Poor disclosure of fees remains a critical issue for comparability

Based on the 622 products that SuperRatings analyses, it is evident that there is still a long way to go to achieve comparability of fees across MySuper and Choice options. Fee disclosure amongst funds still remains varied in the absence of prescriptive legislation that stipulates the degree of disclosure required from each fund along with the determination of materiality. SuperRatings has consistently supported full transparency in the disclosure of fund fee structures so that members are afforded the best opportunity possible to compare funds on a like-for-like basis.

The stronger Super changes (such as those around product dashboards) had given hope for improved transparency by requiring funds to disclose the impact of taxation in relation to the overall management of their fund, as well as enhancing the disclosure requirements around investments, including underlying investment holdings. Whilst the intention of these changes was expected to contribute to a better ability for consumers to compare products, what eventuated was not as originally envisaged with many funds taking differing and often liberal interpretations of the new regulations.

We also note the introduction of the Indirect Cost Ratio ("ICR") has further muddied the waters in respect of fee disclosure with some funds assuming all fees deducted from unit prices (including investment management fees) should be incorporated within the ICR, such that no separate investment management fee is disclosed. Once again, this has done little to aid transparency for consumers and allows funds to continue with opaque and unclear disclosure of underlying fees.

SuperRatings also remains concerned with the "bundling" of various fees into a single fee and we continue to believe in appropriate separation of fees between the following key components:

- Dollar based administration fee;
- Asset based administration fee;
- Asset based investment management fee; and
- Expense recovery or ICR.

We note that there are a number of products within the market that purport to charge no administration fee, with all fees bundled into an inflated investment management fee and vice versa, which does not support clear and transparent disclosure nor reflect the underlying cost of the product.

Whilst we welcome ASIC's recent update to Regulatory Guide 97 surrounding the disclosure of fees in PDS' and periodic statements, we note that ASIC's stance only extends to recommended best practice approaches. In the absence of prescriptive requirements or changes to the Corporations Regulations mandating reporting of indirect costs in Product Disclosure Statements and periodic statements, we are concerned that transparency will still not be achieved. We also note the release of legislation in relation to choice dashboard disclosure and portfolio holdings disclosure and broadly agree with the recommendations, however, will await industry comment to understand the implementation of these changes.

To this end, SuperRatings recognises that prescriptive fee disclosure may not necessarily result in the best commercial outcomes for funds (nor is there any reward for good disclosure) as this is likely to result in the perception of an increase in overall fund fees, however, in our view, it does support a base level of comparison for members, which enables the making of an informed decision about the level of fees and likely outcome that a superannuation fund will provide them.

5.2. Cross-subsidisation still evident within MySuper and across MySuper and Choice products

SuperRatings also recognises that cross-subsidisation both within MySuper products and between MySuper and Choice offerings continues within the industry, with little analysis of costs between products by funds themselves and minimal concern raised by regulators.

Whilst SuperRatings is agnostic from a ratings perspective between single default and lifecycle investment options, our research suggests that cross-subsidisation is particularly evident amongst MySuper products. We specifically recognise that a number of funds charge the same asset-based investment management fee across each cohort of their lifecycle option, regardless of the fact that investment fees will reduce as older cohort's asset allocations reduce exposure to more costly growth assets. This often results in substantial cross subsidisation across cohorts.

A number of funds have indicated that the MySuper legislation requiring trustees to charge no more than four price points for different age cohorts in respect of lifecycle investments has driven this outcome. This may be the case, however, our research shows that many funds have elected to use a single investment management fee rather than reflecting the actual costs of the underlying investments through varying investment fees across cohorts.

We also note that, whilst the initial MySuper legislation required trustees to ensure that there was no cross-subsidisation between MySuper products and Choice products, reasonable levels of these appear to exist. Based upon our discussions with funds, there appears to be little oversight in relation to the apportionment of costs between MySuper and Choice products, resulting in MySuper members often funding reasonable levels of expenditure for choice members. An example of this has been the introduction of member direct platforms, which form part of the Choice product, however, given many funds now have the majority of assets sitting within their MySuper products, the only way to fund the implementation of these offerings was to cross-subsidise their cost using MySuper assets.

5.3. Differences in how different fund types disclose returns

Following the same theme, we note that the industry continues to follow different methodologies in the way in which returns are disclosed, however, we believe disclosure is becoming better in relation to return disclosure. In particular, we note there are two main differences:

5.3.1. Method 1: Net of all implicit fees and net of taxes

Under this methodology the return is calculated net of all investment management fees, administration fees, any other expense recoveries taken out of unit prices or crediting rates and taxes. This method directly correlates to the actual return received by the member and is consistent with SuperRatings methodology in that the investment returns data will always match Annual Reports and reported earnings to members, over all time periods. We continue to believe that this provides full transparency to members of their returns and is the procedure followed by almost the entire NFP sector as well as many RMT providers.

5.3.2. Method 2: Net of fee (excluding all non-investment related fees) but net of taxes

In contrast, the second methodology, which is used by a small number of RMT providers is one in which there is a pure focus on the investment return such that the published returns are calculated net of tax and investment management fees, but exclude any product related asset based administration fees or expense recoveries. We remain concerned that, whilst this method is a pure measure of investment performance, this disclosure provides no direct correlation to the actual experience of a fund member as it does not match the actual return credited to member's accounts or that generally disclosed within a fund's annual report.

To provide a simple example of the two methods, assume the XYZ Super Fund charged only an asset based administration fee of 1.0% and provided members a net of investment management fee return of 10.0% for 2014/15. Under Method 1 the return to the member would be reported as 9.0%, however, under Method 2 the return would be reported as 10.0%. Assuming a member had an account balance of \$100 within the XYZ Super fund, at the end of the year, the member would have a balance of \$109, reflecting a net of all fee and tax return of 9.0% and aligned to the Method 1 disclosure methodology. Under Method 2, however, the return of 9.0% does not correlate to the gross of administration fee investment return of 10.0% disclosed, leading to inconsistency and greater confusion for the member.

The differences in the disclosure of returns undoubtedly creates a complex environment for members to make meaningful comparisons across all superannuation products. To support member engagement, there is a strong need to ensure members are able to make like for like comparisons and more importantly, provide members with investment returns that reflect actual experience and are consistent with annual disclosure. As a result, it is SuperRatings view that Method 1 offers the greatest level of transparency and assists in the comparability of funds.

5.4. Display of returns (median returns versus weighted average returns)

Given the continuously changing landscape in which funds operate within and the magnitude of inflows and outflows within the superannuation system, SuperRatings research shows that all funds continue to favour displaying median returns as the preferred performance measure of their investment options.

Whilst we recognise that APRA provides annual reporting of a fund's total investment return utilising an asset weighted average of all investment option returns, subsequent to discussions with most industry representatives, SuperRatings recognises that an assessment on this basis is largely irrelevant and does not enable member's to draw any accurate conclusions regarding the investment performance of a fund. This is largely due to the fact that those funds with greater levels of assets and members in higher growth investment options will appear to outperform those funds with lower allocations when growth assets are generating strong returns. Simplistically, in our view, the use of weighted average returns can detract from a member's overall ability to make informed investment decisions in relation to a fund given there is no direct correlation with the actual returns that they receive within a fund and results can be highly skewed by higher growth default options.

To this end, SuperRatings remain supportive of the disclosure of returns on a median basis rather than an asset-weighted basis, which is the method used by the majority of the superannuation industry.