

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

2016 - 2017

Department/Agency: Australian Prudential Regulation Authority

Question: 184

Topic: Retail funds performance- Top quartile

Reference: Hansard page no. 9 - 20 October 2016

Senator: Gallagher, Katy

Question:

Senator GALLAGHER:[...] I am particularly interested in whether there is any more information you can provide me on the reason there is such variation between sectors in the transition to MySuper and the timetable for that. Just reflecting on the discussion last week before the House economics committee on super switching and fund performance, I think at the time in *Hansard* there were concerns raised that banks were directly advising customers to switch their super into bank owned funds, which were potentially worse in terms of performance. I think at the time you said that these claims were too general and that your own analysis of 10-year APRA fund level data revealed a reasonable number of retail funds in the top quartile performers. Is that correct?

Mrs Rowell: That is correct.

Senator GALLAGHER: I do not know whether you are in a position today to provide information to the committee on those retail funds that are in the top quartile of performers— if not, can you do it on notice?

Mrs Rowell: We can provide that on notice.

Answer:

APRA publishes annual fund-level information in the *Annual Fund-level Superannuation Statistics* (AFLSS) report that contains detailed information for APRA-regulated superannuation funds with more than four members, including performance information.

APRA's fund-level statistics can be found on APRA's website at:

<http://www.apra.gov.au/Super/Publications/Pages/superannuation-fund-level-publications.aspx>

On 10 February 2016, APRA released the first editions of the AFLSS report incorporating changes to the superannuation reporting framework, for financial years ended in the 12 months to June 2015 and June 2014. The report contains one year whole-of-fund ratios, including rate of return (ROR).¹

APRA has also previously published one year RORs for each year between 2004 and 2013, based on performance information reported under the previous superannuation reporting framework.

¹ ROR is net earnings after tax divided by cash flow adjusted net assets. Net earnings after tax is the sum of net investment income and other income less operating expenses, less tax expense on earnings. Cash flow adjusted net assets is the sum of net assets at the beginning of the period and half of the sum of net members' benefit flows and net insurance flows. Ten year per annum rates of return are calculated as the geometric average of the ten year period.

APRA intends to publish fund-level 10 year RORs in the 2016 edition of the AFLSS, to be released in the coming months.

Table 1 shows the number of funds by fund type below the 25th percentile, between the 25th and 75th percentile (inclusive) and above the 75th percentile ROR for all funds. The distribution is shown for ten and one year RORs to June 2015.² The table also shows the proportion of funds in each percentile bracket by fund type. Investment performance varies widely over different time periods for all industry segments, with each segment represented in most quartiles.

Table 1: Rate of return distribution by number of funds				
APRA-regulated entities with more than four members				
year ended June 2015				
	Below 25th percentile	25th - 75th percentile	Above 75th percentile	All funds
Ten year ROR (2006 - 2015)				
	Number of funds			
Corporate	2	16	12	30
Industry	5	22	15	42
Public sector	0	11	6	17
Retail	39	44	13	96
All funds	46	93	46	185
Ten year ROR (2006 - 2015)				
	Proportion of funds (%)			
Corporate	7	53	40	100
Industry	12	52	36	100
Public sector	0	65	35	100
Retail	41	46	14	100
One year ROR (2015)				
	Number of funds			
Corporate	6	21	5	32
Industry	1	20	21	42
Public sector	0	9	9	18
Retail	47	62	18	127
All funds	54	112	53	219
One year ROR (2015)				
	Proportion of funds (%)			
Corporate	19	66	16	100
Industry	2	48	50	100
Public sector	0	50	50	100
Retail	37	49	14	100

Eligible rollover funds are excluded.

APRA analysis of ten years of reported performance information to June 2015 shows that there are 13 retail funds with ten year ROR to June 2015 above the 75th percentile ROR for all APRA-regulated funds included in the AFLSS (excluding eligible rollover funds).

² Not all funds have ten years of data available. Funds with large ROR outliers are excluded from the one year ROR analysis.

Eight of these retail funds are listed below. The list does not include five retail funds where data was masked to protect member privacy in the 2015 edition of the AFLSS.

Retail funds (in alphabetical order) with ten year ROR to June 2015 above the 75th percentile:

- BHP Billiton Superannuation Fund
- Bluescope Steel Superannuation Fund
- National Australia Bank Group Superannuation Fund A
- Nestle Australia Group Superannuation Fund
- Oracle Superannuation Plan
- The Flexible Benefits Super Fund
- United Technologies Corporation Retirement Plan
- Worsley Alumina Superannuation Fund

A retail fund is defined in APRA's statistics as an RSE with more than four members under the trusteeship of a 'for profit' RSE licensee with a corporate, industry or general membership basis. The retail funds listed above have a membership base of 'corporate' and are non-public offer funds.

Note that most superannuation funds have a year-end of 30 June, however, there are a number of superannuation funds with year-ends other than 30 June. The applicable year-end is noted in the AFLSS in the column headed 'RSE balance date'. Direct comparisons of returns between superannuation funds with different year-ends should not be made as funds may have experienced different investment market conditions over their respective years of income. This should be borne in mind when interpreting the information provided above.

ROR represents the net earnings on superannuation assets and measures the combined earnings of a superannuation fund's assets across all its products and investment options. The majority of RSE licensees offer, from within their funds, both default and choice products. Whole of fund investment performance comparisons between funds with substantially different levels of default and choice members/assets are likely to be less meaningful than comparisons at product or investment option level.

Table 2 shows the number of single strategy MySuper products by fund type below the 25th percentile, between the 25th and 75th percentile (inclusive) and above the 75th percentile net return for all single strategy products over the nine quarters to June 2016. The table also shows the proportion of products in each percentile bracket by fund type. Again, each segment is represented in most quartiles.

While MySuper product comparisons are generally more meaningful than fund level comparisons, features of each product such as return target and asset allocation should be borne in mind when comparing product performance.

Table 2: MySuper net return distribution statistics by number of products

MySuper products with single investment strategy
nine quarters to June 2016

	Below 25th percentile	25th - 75th percentile	Above 75th percentile	All MySuper products
Average annualised net return	Number of products			
Corporate	5	8	0	13
Industry	9	15	17	41
Public sector	1	4	1	6
Retail	6	15	3	24
All products	21	42	21	84
Average annualised net return	Proportion of products (%)			
Corporate	38	62	0	100
Industry	22	37	41	100
Public sector	17	67	17	100
Retail	25	63	13	100

MySuper products that do not have nine quarters of investment returns are excluded.