APRA 2023 Super performance test results

Every year APRA conducts an annual performance test for superannuation products. The assessment under the performance test is intended to hold registrable superannuation entity (RSE) licensees to account for underperformance. A RSE is a regulated superannuation fund. All information discussed below is factual in nature.

From the report issued on the 31st August 2023, only one 'MySuper' product, AMG Super, failed, with the majority of fails coming from Choice options. Choice options are actively selected options, whereas 'MySuper' is the default option offered by the RSE licensee, should you not choose an alternative.

Last year, five MySuper options failed, and four have since merged with other funds and are no longer offered. The remaining one failed for a third consecutive year, with its provider now making plans to stop offering the product all together.

APRA appears to have hit the nail on the head regarding holding super trustees accountable for underperformance. So far, all products that have experienced two or more failures have closed or are closing.

It is also worth noting in recent headlines the "big eight" superannuation funds have announced they will be forming a policy and lobby group to advocate all systematic matters relevant to super and retirement.

How are products tested?

Ultimately, APRA is attempting to ask the question, "How did the product perform against a passively invested index fund with the same strategic asset allocation?". This is achieved by analysing data from performance, fees, and strategic asset allocations (SAA) provided to them through mandatory super fund reporting. SAA, is the target mix of assets for the product. The actual asset allocation may vary from the strategic allocation as the portfolio manager positions the fund where they see opportunities or attempt to hedge risk in the short term. Over the long term it is expected the portfolio manager will strive to stay close to the disclosed mix.

APRA will construct a benchmark portfolio matching the SAA of the product being tested using returns from the index representative of that asset class. From this, they come up with an expected return for the asset allocation and compare this to the product return (after fees). If the product's actual return over the period is lower than the benchmark return by 0.5% per year or more, the product receives a fail mark. This year, performance history over 6 years and up to a maximum of 9 years is included.

One complicating factor with this method of comparison is finding an index for alternative investments, given there can be a lack of transparency when pricing these investments. For now, they are using a mix of international shares and fixed interest as their benchmark.

Which 'Choice' products were tested?

Every product offered by a super trustee is considered its own investment option and is tested on its own merits. However, it's worth noting not all 'choice' products are tested. To be included, the product must be a trustee directed product, which means it is an investment option that is offered in accumulation phase and contains at least two asset classes, where the trustee has a level of control or influence over the investment strategy.

This definition excludes many, but not all investment options offered via super platforms, where the investment management is completely independent of the trustee and is conducted by investment management firms that are not associated with the trustee.

Products that failed

It is interesting to note that the majority of failed products were offered by just four trustees being; AMP, MLC, Insignia Financial (formerly IOOF) and OnePath/One Answer. All these companies except AMP are now owned by Insignia Financial (formerly IOOF).

Two industry super funds, the Australian Meat Industry Super Trust (AMIST) and Australian Retirement Trust (the combined former QSuper and SunSuper) fell short with AMIST's High Growth option and ART's QSuper Socially Responsible option.

Only one corporate fund appeared, Citibank Australia Staff Super Fund, whose Bonds Plus option failed the test.

All other failed options were offered by retail funds.

Consequences of failing the test

When a product fails the test they are required to:

- Write to members by Thursday 28 September 2023 advising them of their performance test outcome.
- Understand the drivers of performance test outcomes, and where appropriate, develop and implement a rectification plan, where appropriate.
- Assess the potential implications of trustee-directed products and MySuper products (if any) failing the test on the fund, including the sustainability of business operations.
- Consider whether the transfer of members to another product or fund would be in members' best financial interests.

A second fail means the fund must be closed to new members and existing members again will receive a letter explaining the failure. Most products that experienced a second fail have merged with other funds (Australian Catholic, Energy Industries Super Scheme and BT Retirement Wrap).

To-date, there has only been one product to experience a third fail (AMG Super's MySuper option).

What about Retirees?

The test unfortunately does not cover products solely in the retirement (pension) phase. If your fund has failed investment options in the accumulation phase, its worth having a look at the corresponding pension phase fund as most options of underlying investments with the same name will be very similar.

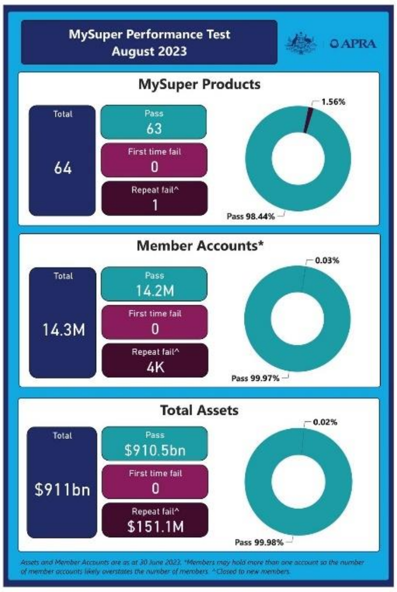
What if I am in a failed option?

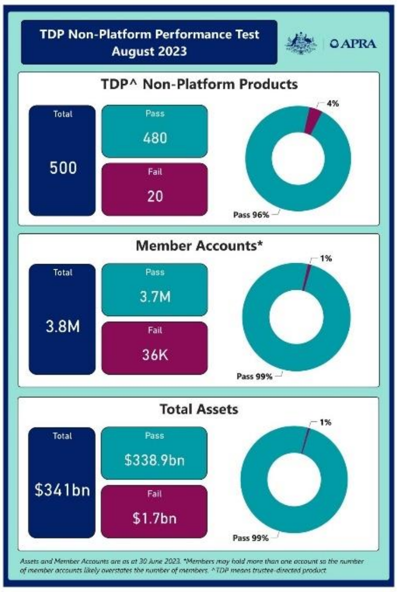
If you get the letter in the mail, it's probably time to review your super. If you're happy with your current provider, you may want to consider switching over to another investment option.

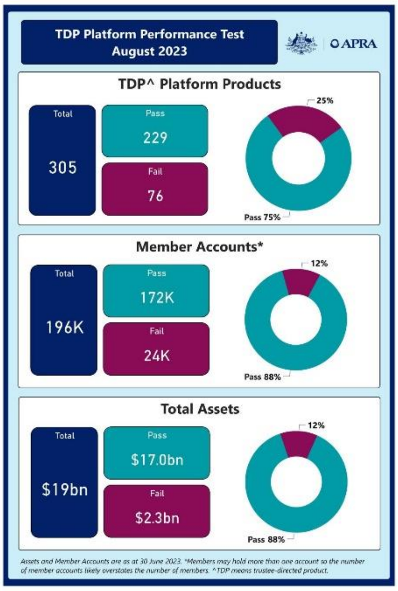
If you or someone you're close to could use help aligning their finances, and establishing a financial plan, please reach out to us, we're accepting new clients and eager to help.

Phone: 9268 1118 email ahenderson@shawandpartners.com.au

The full report can be found on the APRA website here







Alex, Anu and the team.

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