Every super fund should ask these questions before considering a merger

October 2021

A new wave of super fund consolidation has been spurred by the prudential regulator, but mergers are no guarantee that members will be better off.

"Don't merge for operational efficiencies – there's got to be more to it than that," Frontier Head of Member Solutions, David Carruthers, said.

"The key question is members' financial interest, which is why investment needs to be front and centre of any merger assessment."

There are now fewer than 137 large APRA-regulated super funds compared to 214 in 2014 when MySuper legislation prompted a round of consolidation.

APRA recently said funds with less than $30 billion in assets will become increasingly uncompetitive against mega-funds, although Carruthers said the idea that bigger is better was not proven by the data. Carruthers said APRA was particularly targeting funds with less than $10 billion in assets.

More than half of industry and public sector funds, representing three-quarters of all assets, have either merged or been in merger discussions over the last few years including:

- Mergers of equals (such as the similarly sized MTAA Super and Tasplan, which created Spirit Super)
- Takeovers (where mega-funds such as AustralianSuper and Aware Super are actively merging with much smaller funds)
- Consolidation (where retail funds consolidate old brands into new brands, particularly as banks have left the wealth industry).

The industry may yet also see regulator-enforced mergers given the advent of Your Future, Your Super legislation which is pinpointing underperformers.

"APRA is on record as saying they want to see the industry play out first. They don't have any plans – or they're not talking about any plans – about enforcing mergers, but I think it's very much watch this space."

Funds considering a merger need to start the process early and include their asset consultants in discussions, given the crucial role investment strategy plays in net returns.

"Some funds have said, 'investments will sort itself out, that's the easy bit of the merger'. That is very much the wrong thing and if you can't satisfy yourself on investments, then the discussion should stop fairly quickly."

To assess the impact the merged entity would have on members, funds should specifically consider each fund's:

- alignment between culture and strategy
- membership
- products
- investment strategy
- fees
- portfolio construction
- investment resources
- ESG
- transition
- liquidity
- valuation
- performance.

"If alignment's not there, then it's not worth going through any of the other ones."

Carruthers also recommended merging funds place as much focus on transition management as on ongoing fees.

"There's real money to be lost on transitions: there's tax, there's legal, there's combining best-of-breed managers, there's combining strategies."

---

frontier

Frontier Level 17, 130 Lonsdale Street

Melbourne, Victoria 3000

Tel: +61 3 8648 4300

www.frontieradvisors.com.au

@frontier_adv