

Market Insights

August 2021

Superannuation performance

Financial year 2020/21

About us

Frontier has been at the forefront of institutional investment advice in Australia for over 25 years and provides advice over more than \$470 billion of assets across the superannuation, charity, public sector, insurance and university sectors.

Frontier's purpose is to empower our clients to advance prosperity for their beneficiaries through knowledge sharing, customisation, technology solutions and an alignment and focus unconstrained by product or manager conflict.



Daniel Leslie

Consultant

Daniel Leslie joined Frontier in 2019 as a Consultant, working in a generalist client consulting role. He joins Frontier after ten years at Mercer where he spent most of his time in the investment consulting team. Daniel's experience includes four years in the Mercer New York office, working with large US corporate defined contribution and defined benefit pension plans, 401(k) plans, endowments and foundation clients. Daniel holds a Bachelor of Science, a Diploma of Financial Services, and is RG146 compliant.



David Carruthers

Principal Consultant, Head of Member Solutions

David joined Frontier in 2015 as a Senior Consultant and leads the Members Solutions Group. He provides investment advice to a range of clients and conducts research in the area of retirement strategy and product development for superannuation funds. Prior to Frontier David spent 19 years at Mercer in both the UK and Australia. Prior to joining Mercer, David was at Towers Perrin for around six years, working with a number of clients in a consulting and research capacity. David holds a Bachelor of Economics from Macquarie University and is a Fellow of the Institute of Actuaries of Australia.

Superannuation Performance

Young people entering the workforce and opening a superannuation account face preservation rules that enable them to access their super at 60 years of age. This 40-plus year time horizon is advantageous for young members who will typically be able to absorb short-term volatility. Even members with half that time to retirement can still invest with a very long-term horizon. As a result, the focus on shorter-term performance probably gets more attention than is warranted. However, with increased scrutiny on superannuation funds short term performance through the APRA Heatmaps and Your Future Your Super (YFYS) legislation, alongside superannuation fund consolidation, we take a look through the last year's data to see whether there are any trends that explain performance. Annual returns may be more newsworthy and more relatable to recent economic events, but they are not helpful or important for investors considering the long-term suitability of a fund.

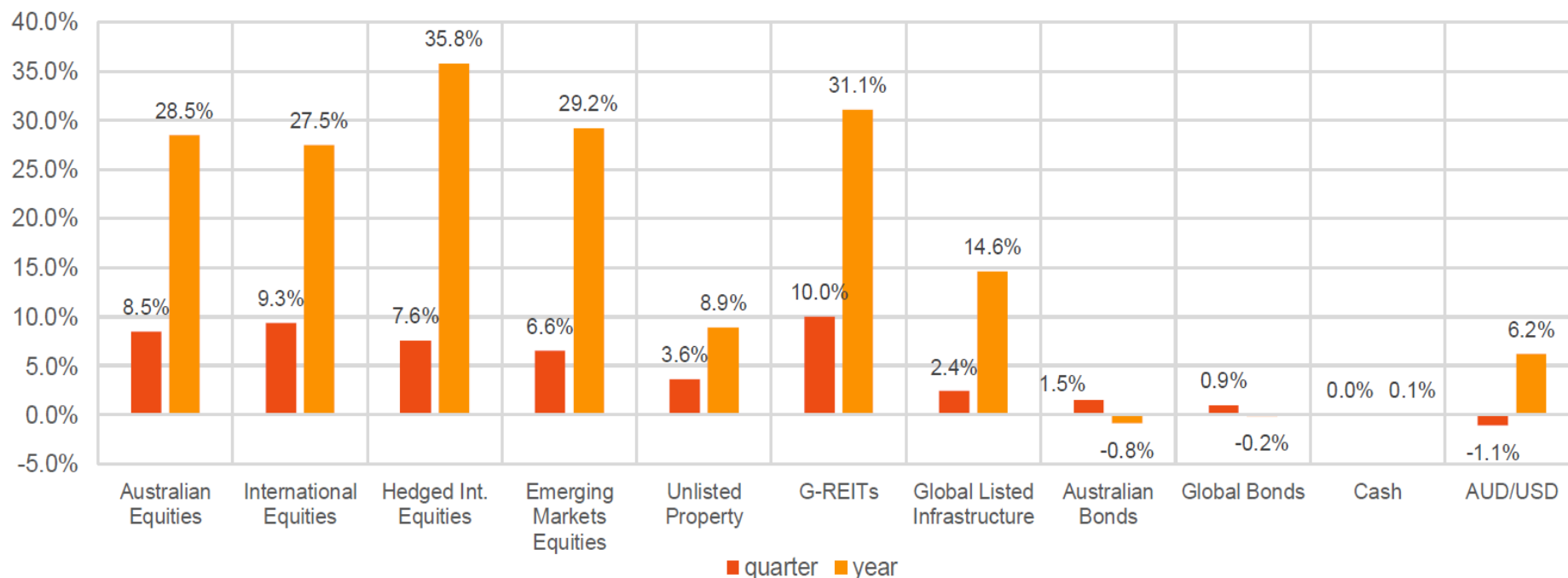
Superannuation performance

Balanced superannuation funds, defined as funds that have 60% to 76% in growth assets and included in the SR50 Balanced (60-76) survey, had their strongest performance year in decades.

We look at the top performers in the 2021 financial year and, with the help of Frontier's peer analytics platform, explore whether there are any particular trends that drove returns in the best performing superannuation funds.

To frame the financial year that was 2021, listed equity markets rallied and Australian equity markets specifically had their strongest year in more than 30 years led by consumer discretionary, information technology and financials.

Chart 1: Performance through June 2021



Source: Frontier

Superannuation performance

With equity markets rallying, strategies with a larger proportion of equities benefited this financial year. Performance was very strong for MySuper member options across the top ten funds and ranged from 19.4% to 22.0%. The table below ranks performance for the one-year period through June 2021. It includes growth asset ratio, size of the fund as well as multiple rolling time periods through ten years.

It is worth noting that some of the funds that performed in the top ten this financial year failed to beat the SR50 Balanced median fund over longer seven- and 10-year timeframes. For the great majority of superannuation fund members this is a more significant metric to consider.

Table 1: Performance through June 2021

Fund	Growth asset ratio	Size \$m	Rolling 1 year %	Rolling 1 year rank	Rolling 3 year %	Rolling 3 year rank	Rolling 5 year %	Rolling 5 year rank	Rolling 7 year %	Rolling 7 year rank	Rolling 10 year %	Rolling 10 year rank
QANTAS Super Gateway - Growth	70	759	22.0	1	9.0	7	9.4	11	7.9	27	8.1	32
BT Panorama Full Menu - BT Wholesale Multi-manager Balanced	70	111	21.4	2	8.2	16	9.0	18	7.6	33	7.9	38
Hostplus - Balanced	76	28,472	21.3	3	8.3	14	10.1	3	9.5	2	9.7	2
CFS-FC Wsale Pers - FirstChoice Wsale Multi-Index Bal	70	1,184	21.3	4	7.5	33	8.1	38	7.3	40	8.0	35
MLC MKey Business Super - Horizon 4 - Bal Portfolio	68	901	20.8	5	8.5	11	9.0	19	8.2	20	8.5	19
Sunsuper for Life - Balanced	70	6,197	20.7	6	8.8	8	9.9	5	8.9	5	9.1	6
AustralianSuper - Balanced	69	140,308	20.4	7	9.6	3	10.4	2	9.6	1	9.7	1
REI Super - Balanced	71	1,354	20.0	8	7.4	36	7.7	43	7.8	30	8.3	24
TelstraSuper Corp Plus - Balanced	70	2,409	19.9	9	8.0	21	8.7	23	7.8	28	8.7	15
Suncorp Brighter Super Bus - Multi-Manager Growth	75	243	19.4	10	10.5	1	10.6	1	-	-	-	-
SR50 Balanced (60-76) Median	70	2,409	17.9	-	7.9	-	8.7	-	8.0	-	8.3	-

Source: Frontier

Asset allocation

Based on the asset allocation shown in Table 2, six of the top ten funds for the year had an overweight to Australian and international equities versus the SuperRatings SR 50 median.

Only three of the funds (Hostplus, AustralianSuper and REI Super) reported a growth exposure higher than the SR Balanced median. Half of the funds had lower than median allocation to property and infrastructure assets

Table 2: Universe asset allocation at June 2021

Option Name	Aus shares (%)	Int shares (%)	Emerging markets (%)	Private equity (%)	Property (%)	Infrastructure (%)	Alternatives (%)	Fixed interest (%)	Cash (%)	Other (%)
Maximum	50.2	50.6	12	21.4	21.7	16.8	25	35	24.8	24.8
Top quartile	28	31	0	2.3	11	8	11.5	23.5	9.2	1.8
Median	25.1	27.7	0	0	8	2.8	3.7	15.9	5.7	0
Bottom quartile	20.9	25	0	0	5.1	0	0	10.8	2.5	0
Minimum	0	14.4	0	0	0	0	0	0	0	0
AustralianSuper - Balanced	21.6	33.8	0	4	6.6	11.9	0	12.9	9.3	0
HOSTPLUS - Balanced	22.6	22.4	5.7	7.4	12.1	8.8	7.3	4	9.7	0
REI Super - Balanced	20.9	36	0	0	11.2	2.6	2.3	12.1	14.2	0.6
Sunsuper for Life - Balanced	26.5	25.8	0	7	10.5	7.5	8	10.8	4	0
QANTAS Super Gateway - Growth	27.5	27.5	0	0	0	0	25	18	2	0
TelstraSuper Corp Plus - Balanced	24	30	0	5	12	7	0	9	6	7
CFS-FC Wsale Pers - FirstChoice Wsale Multi-Index Balanced	29.6	34.8	0	0	6	0	0	24	5.6	0
Suncorp Brighter Super Bus - Suncorp Multi-Manager Growth Fund	-	-	-	-	-	-	-	-	-	-
BT Panorama Full Menu - BT Wholesale Multi-manager Balanced Fund	27	31.4	0	0	10.3	0	2	18.1	7.5	3.7
MLC MK Super Fundamentals - Horizon 4 - Balanced Portfolio	28	19.9	0	7.2	3.2	0	13.3	24.3	4.3	0

Asset allocation

Charts 2 and 3 show regression of the top ten funds against their allocation to Australian equities and international equities. Compared to last year's analysis, unsurprisingly there was a stronger relationship between holding Australian and international equities and fund performance.

Chart 2: International equities vs. 1 year returns through June 2021

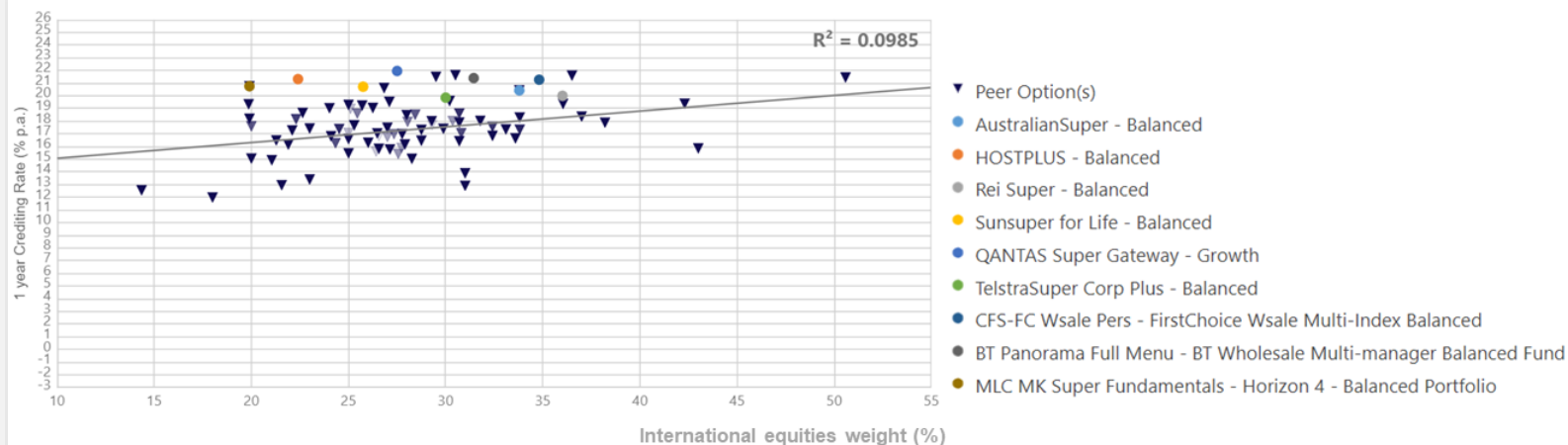
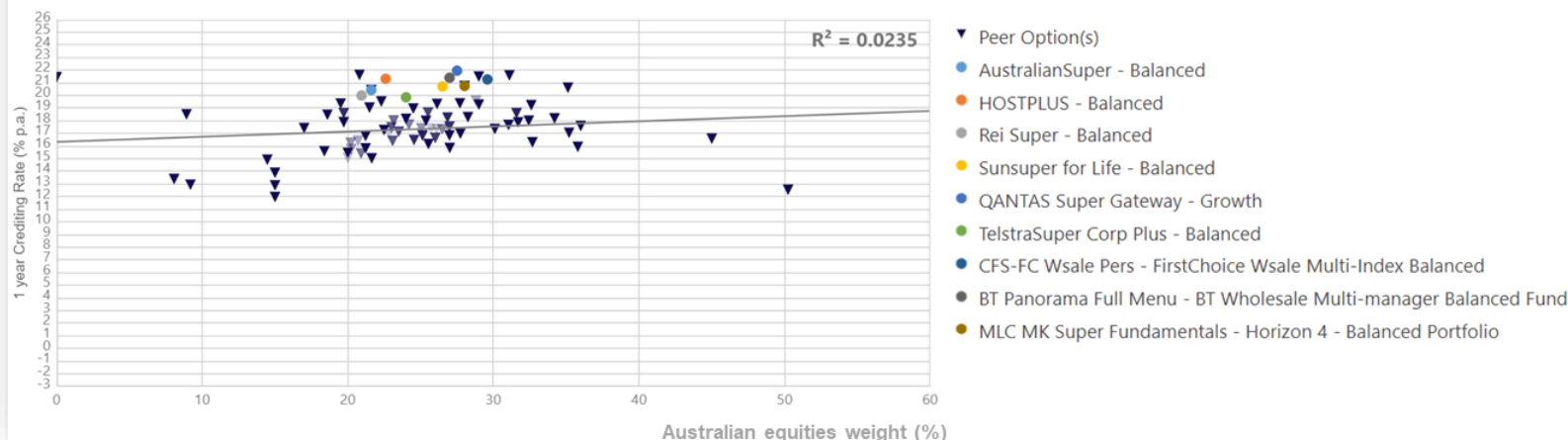
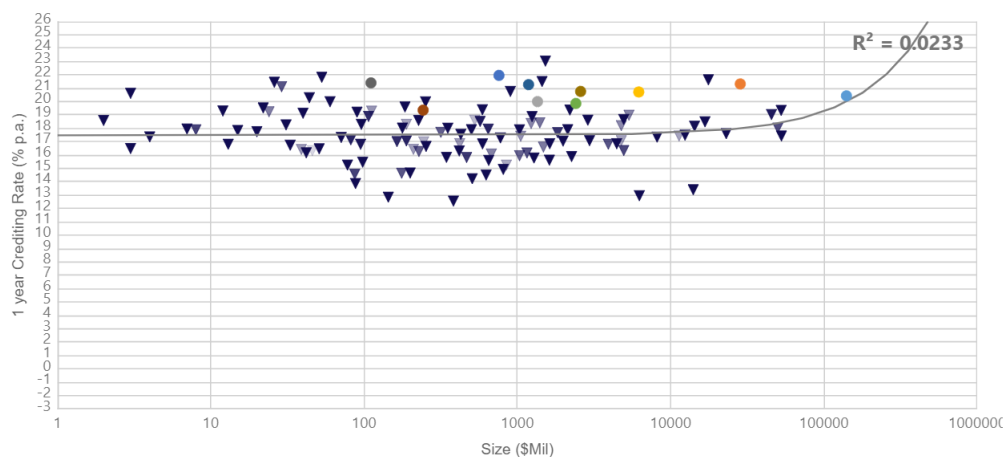


Chart 3: Australian equities vs. 1 year returns through June 2021



Asset allocation

Chart 4: Fund size vs. 1 year returns through June 2021

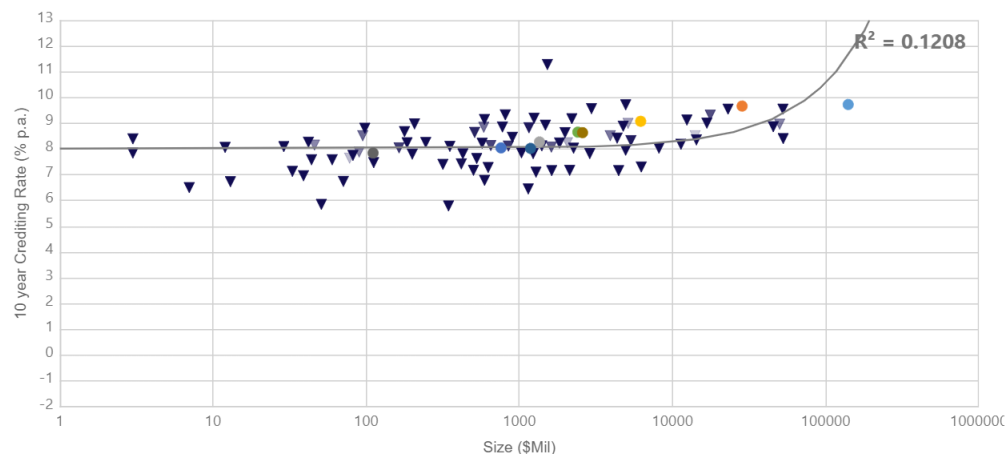


Funds are required to undertake an annual member outcomes assessment of whether its members are disadvantaged by virtue of the fund's scale.

In FY21 size of fund mattered less than in previous years, with only two of the top ten performers being in the top ten in terms of assets. The best performing fund ranked 39 in terms of assets. However, if you look at this metric over a ten-year period there is a stronger correlation between size and performance with six of the top ten performers also ranking in the top ten in assets.

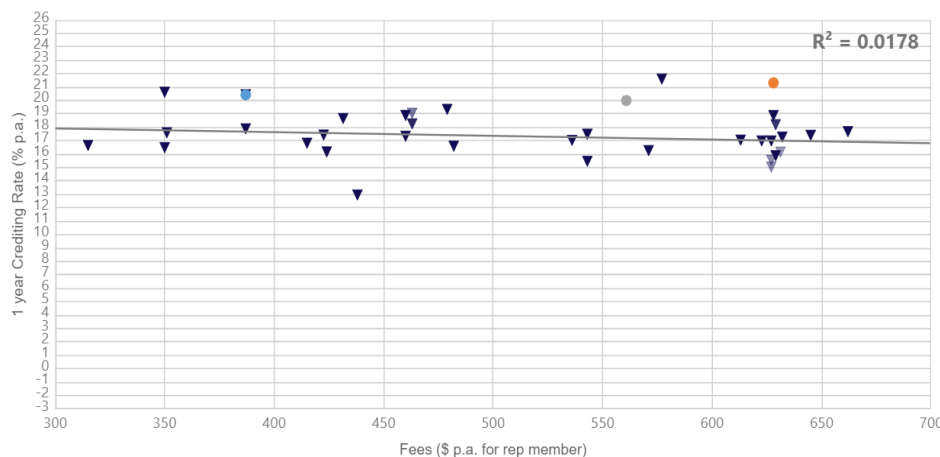
There was no relationship between fees and performance over FY21.

Chart 5: Fund size vs. 10 year returns through June 2021



- ▼ Peer Option(s)
- AustralianSuper - Balanced
- HOSTPLUS - Balanced
- Rei Super - Balanced
- Sunsuper for Life - Balanced
- QANTAS Super Gateway - Growth
- TelstraSuper Corp Plus - Balanced
- CFS-FC Wsale Pers - FirstChoice Wsale Multi-Index Balanced

Chart 6: Fund fees vs. 1 year returns through June 2021



- Suncorp Brighter Super Bus - Suncorp Multi-Manager Growth Fund
- BT Panorama Full Menu - BT Wholesale Multi-manager Balanced Fund
- MLC MK Super Fundamentals - Horizon 4 - Balanced Portfolio

Does FY21 performance translate into longer-term performance?

With superannuation a long-term investment, members should be looking for a fund with good performance consistency rather than just one good year.

Table 3 examines the performance of the top ten funds over the ten years to June 2021. Only three of these funds were ranked in the top ten for the year just ended. Even more interestingly, three of the funds were below average over FY21.

Table 3: Ten year performance consistency

Fund	10 year		2020/21 year	Annual performance quartiles over the decade			
	Return (%pa)	rank		Top	Second	Third	Bottom
AustralianSuper - Balanced	9.7	1	7	7	3	0	0
Hostplus - Balanced	9.7	2	3	8	0	0	2
Cbus - Growth (Cbus MySuper)	9.6	3	11	8	2	0	0
UniSuper Accum (1) - Balanced	9.6	4	27	5	3	2	0
CareSuper - Balanced	9.1	5	28	5	3	1	1
Sunsuper for Life - Balanced	9.1	6	6	4	5	1	0
VicSuper - Growth (MySuper)	9.0	7	20	3	5	2	0
Vision Super - Balanced Growth	9.0	8	13	5	1	2	2
Aware Super - Growth	9.0	9	25	5	4	0	1
Equip MyFuture - Balanced Growth	8.9	10	43	7	0	1	2

AustralianSuper stands alone in terms of performance consistency in this analysis – they are the only fund which has outperformed the average fund in each of the last ten financial years. Somewhat unsurprisingly, given their high allocation to growth assets and younger membership demographic, Hostplus has either appeared near the top or the bottom, but never near the middle, in individual years – much more frequently in the former.

Most of these funds have had two or more years when their performance in a year has been below average. Half of the funds have had at least one year when their return ranked them in the bottom quartile of peers.

The lesson from this analysis is that a single year of good performance does not necessarily result in good long-term performance. Neither does even a couple of underperforming years across a decade translate to poor longer-term returns.

Picking winners. Is past performance a guide to the future?

Chart 7 tries to answer the perennial question – can you pick good funds based on past performance?

The chart plots the SR50 funds' performance over the last ten years, separated into two five-year periods. It then examines whether there is a relationship between the performance in the first five years with the return in the subsequent five years.

Investors will have benefitted from investing in funds which appeared in the top right of the chart – 'winners' or funds which had above average performance in both periods. Slightly more than a third of funds had above median in both five year periods.

Conversely, investors would have experienced consistent underperformance from funds in the bottom left quadrant – 'losers' with below average performance in both periods. Around one-in-six funds appear here.

The remaining two quadrants are interesting. The 'risers' are those funds which had a poor first five years and then a good next five years. The 'fallers' are the mirror of that outcome.

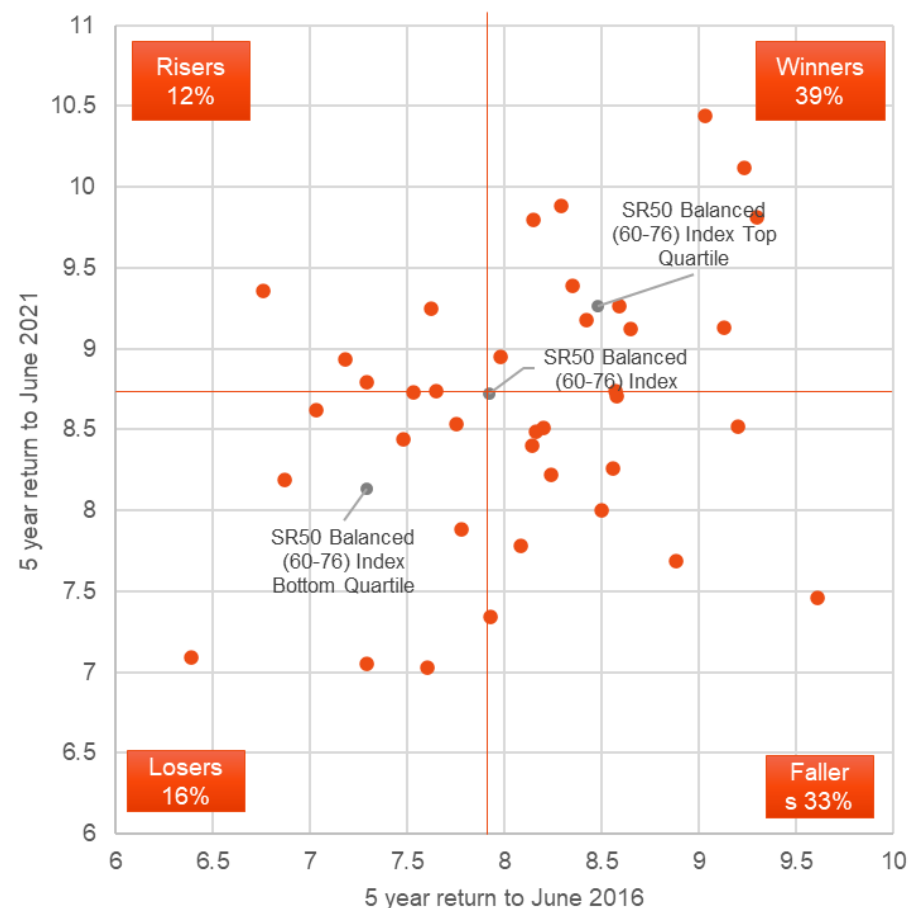
These funds are the ones which buck the idea of past performance being a reliable trend. They account for slightly less than half of the funds.

This analysis is over just one ten-year time period. However, the results are in line with the reams of academic (and ASIC) research which shows 'good past performance seems to be, at best, a weak and unreliable predictor of future good performance over the medium to long term.'¹

This has implications for use of the ATO YourSuper comparison tool.

1. ASIC – A review of the research on the past performance of managed funds, June 2003

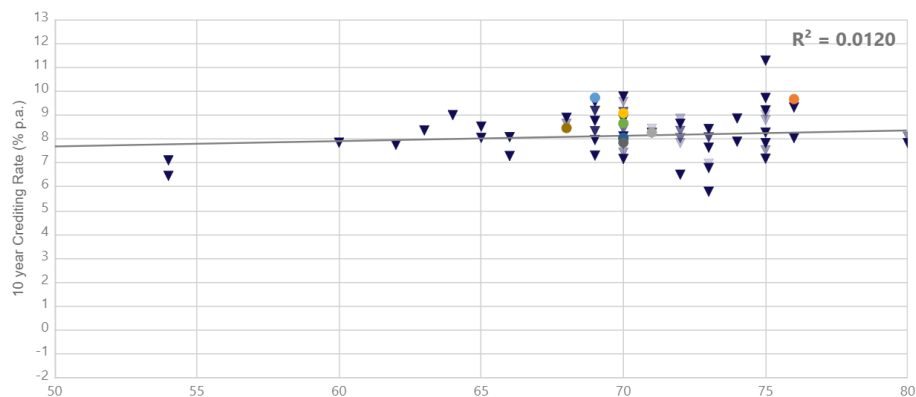
Chart 7: Examining past performance



Source: Frontier, SuperRatings

Risk and performance

Chart 8: Growth ratio vs. 10-year returns through June 2021



As growth assets are typically more risky than defensive assets, a fund with a higher growth ratio can be more risky, although this may not show up in any particular year. Given funds self-report their growth allocation, this measure is open to some interpretation.

The expected number of negative returns in 20 years is another measure of investment risk.

Calculating the volatility of returns is a traditional measure of risk. However, it can be affected by the valuation policy used for illiquid assets.

These charts show that growth ratio is a modest predictor of performance over a ten-year period.

Chart 9: Investment risk vs. 10 year returns through June 2021

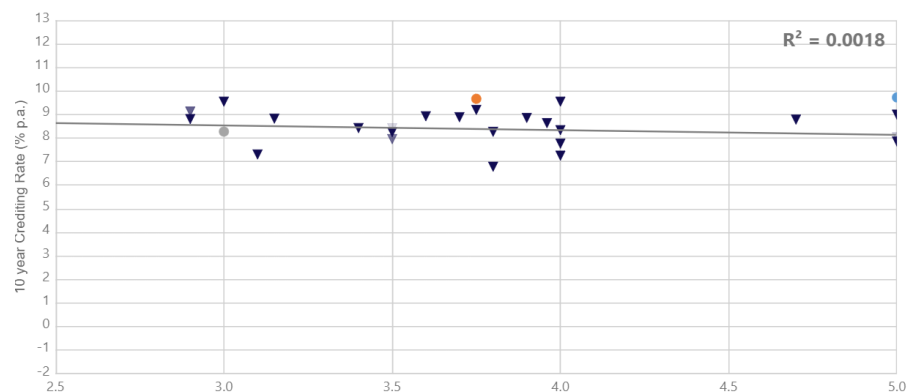
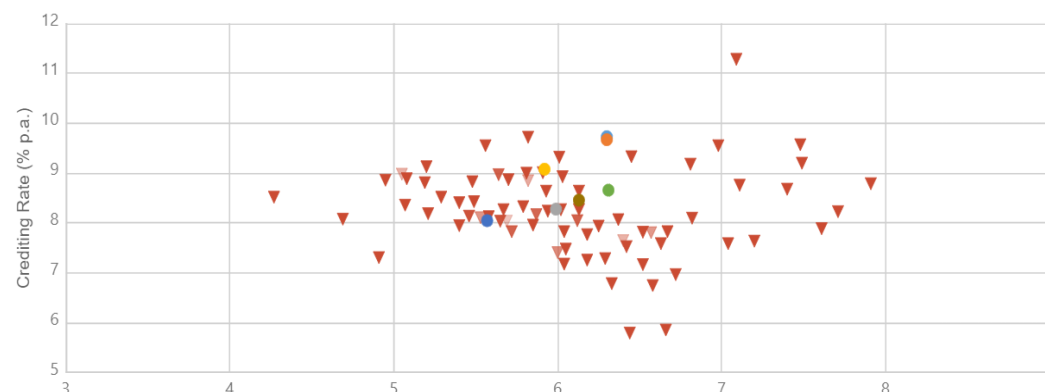


Chart 10: Return vs. risk 10 year through June 2021



- ▼ Peer Option(s)
- Suncorp for Life - Balanced
- AustralianSuper - Balanced
- QANTAS Super Gateway - Growth
- HOSTPLUS - Balanced
- TelstraSuper Corp Plus - Balanced
- Rei Super - Balanced
- CFS-FC Wsale Pers - FirstChoice Wsale Multi-Index Balanced

- Suncorp Brighter Super Bus - Suncorp Multi-Manager Growth Fund
- BT Panorama Full Menu - BT Wholesale Multi-manager Balanced Fund
- MLC MK Super Fundamentals - Horizon 4 - Balanced Portfolio

Conclusion



Superannuation is a long-term investment, and it is long-term returns which impact member outcomes. Analysing short-term performance can be helpful, especially in understanding how performance was achieved and whether there are any trends. Waiting ten years to determine a fund is persistently underperforming will negatively affect a members' final benefits.

Choosing a fund based on one year of good performance is fraught with danger. Adjusting for risk is important, but risk is multi-faceted and requires detailed knowledge and understanding and beyond the capability of the majority of fund members. Alternatively, choosing a fund because it has low fees is no panacea ... after-fee returns are important, rather than the level of fees.

Basing a fund choice on longer-term performance has more appeal. However, care is needed to differentiate between those funds which have done well in the past and those funds which may do well in the future.

As we've highlighted, a robust assessment across a wider range of factors is needed to be satisfied each fund is of appropriate quality and provides good value for members. This includes:

- Investment performance measured across multiple time periods, and consideration of the level and nature of investment risk.
- Level of fees and costs, particularly where these are increasing.
- Size of assets and cashflow position, especially if the cashflow is negative.
- Fund governance, business management and trustee oversight.
- Other factors such as member services and other qualitative factors.

The focus should be on improved outcomes for members over the long term.



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Key features include:



Performance Dashboard



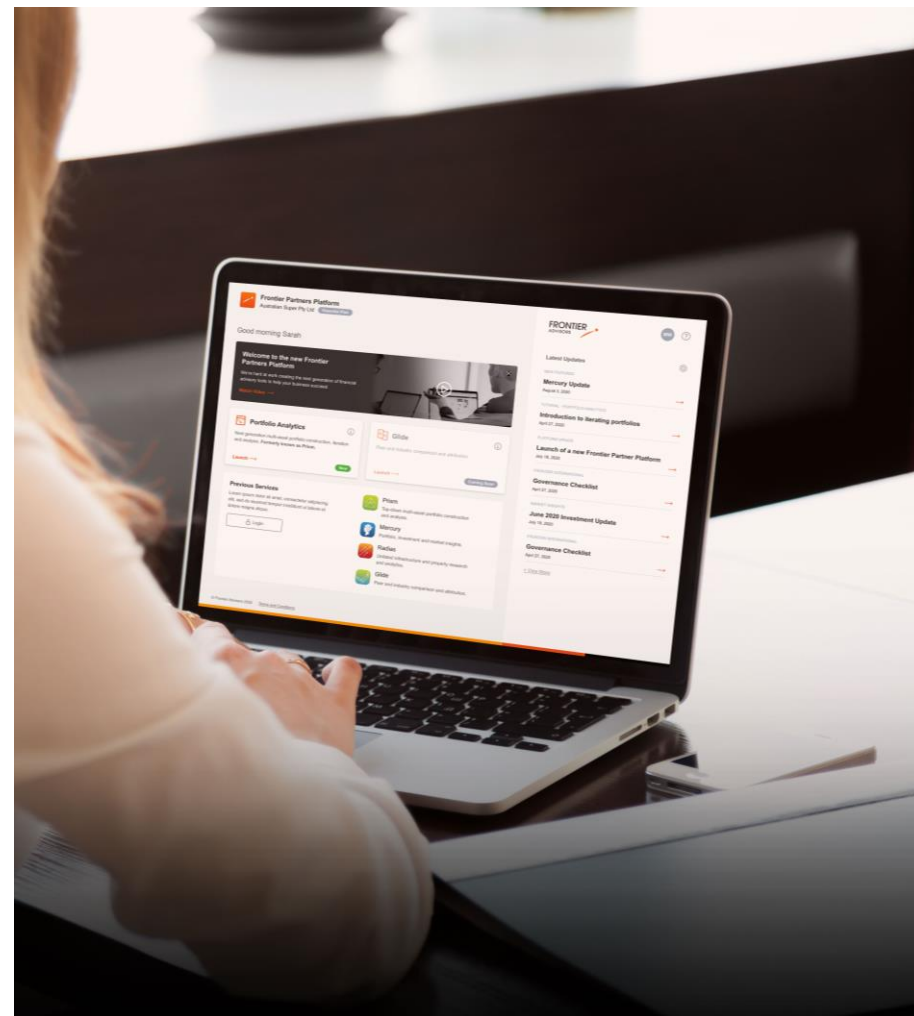
APRA Key Metrics



Performance Attribution



Membership profile





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