



ARE AUSTRALIA'S SUPER FUNDS MEETING THEIR OBJECTIVES?

PERFORMANCE ANALYSIS

EFFECTIVE 30 SEPTEMBER 2008



HAVE SUPER FUNDS MET THEIR LONG TERM OBJECTIVES AND

HOW WOULD A MEMBER KNOW ANYWAY?

At a time when Australians are learning the hard way that their 10%+ returns above inflation between 2003 and 2007 came with associated risk, it is worth reflecting on whether Australia's major super funds continue to achieve their long term objectives and what happens when a member tries to measure the investment option they are in (or considering).

Taking the member experience first, when a member actually looks into their investment options they will find that every investment option within every super fund in Australia must have a stated "Investment Objective". Unfortunately, like many regulations, there is no strict definition of what needs to be included in an investment objective and therefore how it needs to be described. For example, take the two following investment objectives taken from existing funds in the market, both of which describe the Investment Objective of a Balanced Option:

1. To provide moderate to higher returns over the medium to long term through a portfolio diversified across all asset types, but with an emphasis on shares and property.
2. To achieve returns after tax and fees that exceed increases in the inflation rate (as measured by the CPI) by at least 3% pa over rolling 5-year periods. Over shorter periods, to ensure as far as possible that the amounts credited to members each year are competitive with those credited by comparable balanced options in other super funds. To achieve positive returns after tax and fees in at least 8 out of 10 financial years.

As can be seen, an investor in Fund 1 has been provided with a series of non-descript words that in no way brings to the attention of the member that the option can experience a negative return. Further, it appears the member has no way of measuring whether their fund has actually achieved their objective as there are too many ill defined terms relating to both the relativity of the return itself and also the time period.

Contrast the objective of Fund 1 against Fund 2, where it is quite clear to the member that they can experience regular negative returns and if the member were to review the performance there are a number of clearly defined objectives that the fund has either met or not met. This paper briefly looks the performance of Australia's major super funds relative to their stated objectives.

"What is disappointing however, and what became clearly apparent when preparing this paper, is the lack of consistency within the industry with regard to how investment objectives are formulated and conveyed to members".

Consumers have a right to be able to clearly measure the performance of their investment option and that such measurement should be consistent across funds. As an initial step SuperRatings is of the opinion that all investment objectives contain the following measurable figures:

1. The objective should be referenced against a "CPI Plus" objective. In other words, all objectives should state that they are trying to return CPI plus X% (e.g. the objective is to return 3.5% above the CPI).
2. The objective should be stated over an annualised time frame. In other words the objective should be expressed as being achieved over a X year period (e.g. the objective is measurable over a 5 year period).
3. The objective should clearly advise the risk of having a negative return. This should be in the form of the likelihood of having a negative return in this investment option is "a" years in "b" years (e.g. 1 year in 10).



Less than 1 in 4 investment objectives were in SuperRatings' view able to be easily measured against clearly defined and measurable benchmarks. Out of 413 investment options, 312 had to be eliminated from the study due to ill-defined objectives, leaving just 101 options for the study. Notwithstanding the wide divergence of definitions, SuperRatings conducted analysis on the performance of superannuation options against their stated objectives. The findings of this research follows.

AN ALTERNATIVE WAY OF MEASURING INVESTMENT PERFORMANCE

In order to provide an alternative view on the performance of super funds, SuperRatings has conducted analysis on the performance of superannuation funds against their stated objectives.

Historical performance analysis has typically centred on grouping funds into categories such as Balanced, Stable or Growth based on the funds growth asset ratio.

"The analysis presented here does not take into account the fund's label or growth asset ratio and therefore effectively eliminates issues around classification of growth/defensive assets, something which has been subject to much debate over the past two years".

Rather than focus on which asset classes the funds are invested in, this analysis is more concerned about the ability of a fund's investment option to achieve its stated objective. Hence, the asset allocation of a fund option is irrelevant.

One issue that was identified through this analysis is that a number of funds have ambiguous objectives. Not only does this make measuring the fund's overall performance difficult, it can also inhibit a members and/or financial adviser's ability to select an appropriate investment to match the clients risk/return profile. In fact, less than 25% of all investment options that qualified for the study (i.e. diversified portfolios with greater than 20% claimed as growth style assets) were able to be ultimately assessed, with the remaining options failing to meet, in our opinion, a reasonable standard of an investment objective definition.

Further detail of the sample set and process used in assessing performance can be found later in this document. Briefly, SuperRatings reviewed the objectives of all the diversified funds within the SuperRatings Fund Crediting Rate Survey. Those funds with an inflation based objective were then selected and grouped into appropriate timeframes of either short term (2-3 Years), medium term (4-5 years) and long term (6-7 years). Funds without a clearly defined CPI target or timeframe were not included in the sample.

Each fund's stated inflation outperformance objective was then added to the appropriate annualised CPI rate to determine a target return rate (i.e. their stated objective). The fund's actual performance at 30 September 2008 was then compared with the target return rate to calculate the excess returns a fund has achieved over the stated timeframe.



PERFORMANCE RESULTS RELATIVE TO OBJECTIVES

SHORT TERM

Not surprisingly the majority of funds with shorter term CPI based objectives are funds with a lower growth asset ratio reflecting the risk profile of these funds. For the 3 years to 30 September 2008 not one fund exceeded their targeted objective out of 23 assessed. Overall this is a poor result and can likely be attributed to the recent market downturn and increasing CPI. It does bring into question however whether a 3 year time frame is too short even allowing for the more conservative nature of these options. Further, unless markets rebound in the short term it is likely that this universe of funds will continue to miss their investment objectives.

DIVERSIFIED FUNDS WITH 3 YEAR CPI BASED TARGET 30 September 2008

Option Name	Growth Asset Ratio	Option Type	CPI	CPI Objective	Target Return	3 Year Actual Return	Excess Returns
NGS Super - Defensive	32	Capital Stable (20-40)	3.6%	1.0%	4.6%	4.6%	0.0%
Equisuper Corp - Conservative	30	Capital Stable (20-40)	3.6%	2.0%	5.6%	5.3%	-0.2%
ESI Super - Stable Option	35	Capital Stable (20-40)	3.6%	1.0%	4.6%	4.3%	-0.3%
Super SA Triple S - Capital Defensive	20	Capital Stable (20-40)	3.6%	2.0%	5.6%	5.0%	-0.6%
Plum - Pre-mixed Cautious	50	Conservative Balanced (41-59)	3.6%	1.0%	4.6%	3.9%	-0.7%
Intrust Core Super - Stable	30	Capital Stable (20-40)	3.6%	2.0%	5.6%	4.7%	-0.9%
Intrust Exec Super - Stable	30	Capital Stable (20-40)	3.6%	2.0%	5.6%	4.7%	-0.9%
AustSafe Super - Capital Stable	40	Capital Stable (20-40)	3.6%	2.0%	5.6%	4.3%	-1.3%
Rei Super - Super Stable	28	Capital Stable (20-40)	3.6%	1.0%	4.6%	3.2%	-1.3%
ESI Super - Capital Managed	50	Conservative Balanced (41-59)	3.6%	2.0%	5.6%	4.1%	-1.4%
Health Super - Short-Term Conservative	30	Capital Stable (20-40)	3.6%	2.5%	6.1%	4.6%	-1.5%
QSuper - Cash Plus	35	Capital Stable (20-40)	3.6%	3.0%	6.6%	4.9%	-1.7%
Catholic Super and Retirement - Conservative	33	Capital Stable (20-40)	3.6%	2.5%	6.1%	4.3%	-1.8%
First State Super - Capital Guarded	30	Capital Stable (20-40)	3.6%	2.8%	6.3%	4.5%	-1.8%
Tasplan - Short Term Defensive	30	Capital Stable (20-40)	3.6%	3.0%	6.6%	4.8%	-1.8%
First State Super - Balanced	50	Conservative Balanced (41-59)	3.6%	3.3%	6.8%	4.0%	-2.8%
Wealthstar Bus Super - Intech Cons. Growth	37	Capital Stable (20-40)	3.6%	1.0%	4.6%	1.7%	-2.9%
Aon MT - Capital Stable (Index)	30	Capital Stable (20-40)	3.6%	3.0%	6.6%	3.3%	-3.3%
AustSafe Super - Balanced	75	Balanced (60-76)	3.6%	3.0%	6.6%	3.1%	-3.5%
Aon MT - Capital Stable (Active)	30	Capital Stable (20-40)	3.6%	3.5%	7.1%	3.4%	-3.7%
Combined Fund - Balanced	70	Balanced (60-76)	3.6%	3.0%	6.6%	2.9%	-3.7%
FuturePlus - Capital Guarded	30	Capital Stable (20-40)	3.6%	3.5%	7.1%	2.7%	-4.4%
FuturePlus - Balanced	50	Conservative Balanced (41-59)	3.6%	4.0%	7.6%	2.3%	-5.2%
Number of Options Ranked							23
Top quartile							-0.9%
Median							-1.7%
Bottom quartile							-3.1%

MEDIUM TERM

The greatest number of funds set their CPI based objective over a 4 or 5 year period. The performance of this sample was strongest with almost all funds exceeding their stated CPI objective over the 5 years to 30 September 2008. This indicates that despite recent market difficulty (notwithstanding October) the majority of funds have still delivered on their promise to members and remain ahead of stated performance objectives.

The analysis also highlights the gap between the best and worst performing superannuation funds with the best performing fund exceeding its target return by over 5% per annum over the last five years. This excellent result contrasts with the worst performing option which has underperformed its objective by more than 2% per annum over the same time period.

DIVERSIFIED FUNDS WITH 5 YEAR CPI BASED TARGET 30 September 2008

Option Name	Growth Asset Ratio	Option Type	CPI	CPI Objective	Target Return	5 Year Actual Return	Excess Returns
Mtaa Super - Balanced	76	Balanced (60-76)	3.2%	4.0%	7.2%	12.3%	5.1%
AMIST - Balanced	64	Balanced (60-76)	3.2%	2.0%	5.2%	9.2%	3.9%
Westscheme - Trustee's Selection	74	Balanced (60-76)	3.2%	3.0%	6.2%	9.8%	3.6%
Cbus - Core Strategy	74	Balanced (60-76)	3.2%	3.5%	6.7%	9.9%	3.2%
REST - Industry - Diversified	80	Growth (77-90)	3.2%	3.0%	6.2%	9.3%	3.0%
Acumen - Diversified	80	Growth (77-90)	3.2%	3.0%	6.2%	9.3%	3.0%
Westscheme - Screened Investment	74	Balanced (60-76)	3.2%	3.0%	6.2%	9.2%	3.0%
REST - Industry - Core Strategy	73	Balanced (60-76)	3.2%	3.0%	6.2%	9.0%	2.8%
Acumen - Core Strategy	73	Balanced (60-76)	3.2%	3.0%	6.2%	9.0%	2.8%
Intrust Core Super - Balanced	75	Balanced (60-76)	3.2%	3.0%	6.2%	9.0%	2.8%
Intrust Exec Super - Balanced	75	Balanced (60-76)	3.2%	3.0%	6.2%	9.0%	2.8%
Mtaa Super - Conservative	36	Capital Stable (20-40)	3.2%	3.0%	6.2%	9.0%	2.7%
TWUSUPER - Equity Plus	100	High Growth (91-100)	3.2%	3.5%	6.7%	9.4%	2.7%
CARE Super - Balanced	75	Balanced (60-76)	3.2%	3.0%	6.2%	8.8%	2.6%
LGSP (WA) - Diversified Moderate	82	Balanced (60-76)	3.2%	3.0%	6.2%	8.7%	2.5%
ESI Super - Balanced Option	70	Balanced (60-76)	3.2%	3.0%	6.2%	8.7%	2.5%
REST - Industry - Balanced	55	Conservative Balanced (41-59)	3.2%	2.0%	5.2%	7.7%	2.5%
Acumen - Balanced	55	Conservative Balanced (41-59)	3.2%	2.0%	5.2%	7.7%	2.5%
REST - Industry - Capital Stable	35	Capital Stable (20-40)	3.2%	1.0%	4.2%	6.7%	2.4%
Acumen - Capital Stable	35	Capital Stable (20-40)	3.2%	1.0%	4.2%	6.7%	2.4%
Cbus - Conservative	28	Capital Stable (20-40)	3.2%	2.0%	5.2%	7.6%	2.4%
NGS Super - Diversified	74	Balanced (60-76)	3.2%	3.0%	6.2%	8.6%	2.3%
QSuper - Balanced	68	Balanced (60-76)	3.2%	4.0%	7.2%	9.6%	2.3%
Cuesuper - Growth	70	Balanced (60-76)	3.2%	3.0%	6.2%	8.4%	2.2%
LGSP (WA) - Diversified Conservative	50	Capital Stable (20-40)	3.2%	2.0%	5.2%	7.4%	2.2%
Cuesuper - Stable	40	Conservative Balanced (41-59)	3.2%	1.0%	4.2%	6.4%	2.2%
TWUSUPER - Balanced	75	Balanced (60-76)	3.2%	3.0%	6.2%	8.3%	2.0%
City Super - Growth	95	High Growth (91-100)	3.2%	4.0%	7.2%	9.2%	1.9%
City Super - Balanced	75	Balanced (60-76)	3.2%	3.0%	6.2%	8.0%	1.8%



CARE Super - Growth	90	Growth (77-90)	3.2%	4.0%	7.2%	9.0%	1.8%
First State Super - High Growth	90	Growth (77-90)	3.2%	4.0%	7.2%	8.8%	1.6%
CARE Super - Capital Stable	35	Capital Stable (20-40)	3.2%	2.0%	5.2%	6.7%	1.5%
Super SA Triple S - Conservative	40	Capital Stable (20-40)	3.2%	3.0%	6.2%	7.7%	1.5%
City Super - Stable	30	Capital Stable (20-40)	3.2%	2.0%	5.2%	6.7%	1.5%
AUSCOAL Super - Balanced	59	Conservative Balanced (41-59)	3.2%	3.5%	6.7%	8.1%	1.4%
Seafarers' RF - Balanced	75	Balanced (60-76)	3.2%	3.0%	6.2%	7.5%	1.3%
First State Super - Diversified	70	Balanced (60-76)	3.2%	3.8%	7.0%	8.3%	1.3%
Equisuper Corp - Balanced Growth	70	Balanced (60-76)	3.2%	4.0%	7.2%	8.5%	1.3%
GESB-WSS - Growth Plan	75	Balanced (60-76)	3.2%	4.0%	7.2%	8.5%	1.3%
LGSP (WA) - Diversified High Growth	96	Growth (77-90)	3.2%	4.0%	7.2%	8.5%	1.3%
AUSCOAL Super - AUSCOAL Growth	80	Growth (77-90)	3.2%	4.0%	7.2%	8.5%	1.3%
Seafarers' RF - Growth	90	Growth (77-90)	3.2%	4.0%	7.2%	8.4%	1.2%
Health Super - Medium-Term Growth	70	Balanced (60-76)	3.2%	4.0%	7.2%	8.4%	1.2%
AUSCOAL Super - AUSCOAL Stable	40	Capital Stable (20-40)	3.2%	3.0%	6.2%	7.4%	1.1%
AMIST - Growth	85	Growth (77-90)	3.2%	4.0%	7.2%	8.4%	1.1%
GESB - WSS - Balanced Plan	60	Balanced (60-76)	3.2%	3.7%	6.9%	8.0%	1.1%
Tasplan - Balanced	70	Balanced (60-76)	3.2%	4.0%	7.2%	8.1%	0.8%
Health Super - Long-Term Growth	90	Growth (77-90)	3.2%	5.0%	8.2%	9.1%	0.8%
Asset Super - Stable Growth	33	Capital Stable (20-40)	3.2%	2.0%	5.2%	5.9%	0.7%
Health Super - Balanced	50	Conservative Balanced (41-59)	3.2%	3.5%	6.7%	7.4%	0.7%
GESB-WSS - Conservative Plan	30	Capital Stable (20-40)	3.2%	3.3%	6.5%	7.0%	0.5%
LGsuper Accum - Growth	78	Growth (77-90)	3.2%	5.0%	8.2%	8.7%	0.5%
LGsuper Accum - Growth Smoothed	78	Growth (77-90)	3.2%	5.0%	8.2%	8.7%	0.4%
LGsuper Accum - Conservative	37	Capital Stable (20-40)	3.2%	3.0%	6.2%	6.6%	0.4%
LGsuper Accum - Balanced	56	Conservative Balanced (41-59)	3.2%	4.0%	7.2%	7.5%	0.3%
Seafarers' RF - Stable	20	Capital Stable (20-40)	3.2%	1.5%	4.7%	4.9%	0.2%
Christian Super - Ethical Stable	30	Capital Stable (20-40)	3.2%	2.5%	5.7%	5.9%	0.2%
Cuesuper - Equities	95	High Growth (91-100)	3.2%	5.0%	8.2%	8.4%	0.2%
Aon MT - Balanced (Active)	70	Balanced (60-76)	3.2%	4.5%	7.7%	6.5%	-1.2%
FuturePlus - Diversified	70	Balanced (60-76)	3.2%	4.7%	7.9%	6.6%	-1.4%
Aon MT - High Growth (Active)	100	High Growth (91-100)	3.2%	5.5%	8.7%	7.0%	-1.7%
Aon MT - Growth (Active)	85	Growth (77-90)	3.2%	5.0%	8.2%	6.1%	-2.2%
Number of Options Ranked							62
Top quartile							2.5%
Median							1.5%
Bottom quartile							0.9%



LONG TERM

A smaller number of funds assessed have a longer performance horizon although with mixed performance results. Half of the funds assessed remained ahead of their performance targets while the other half has not delivered sufficient value to their members over the longer term.

It is worth noting that the longer term assessments bring into play the periods of poor performance around 2002 and 2003 as well as the difficult 2008. This reinforces the strong result of those funds that remain ahead of their objective, despite the inclusion of 3 difficult years.

DIVERSIFIED FUNDS WITH 7 YEAR CPI BASED TARGET

30 September 2008

Option Name	Growth Asset Ratio	Option Type	CPI	CPI Objective	Target Return	7 Year Actual Return	Excess Returns
MTAA Super - Growth	63	Balanced (60-76)	3.1%	5.0%	8.1%	11.3%	3.2%
REST - Industry - High Growth	95	High Growth (91-100)	3.1%	4.0%	7.1%	9.1%	2.0%
MasterSuper - Capital Stable	30	Capital Stable (20-40)	3.1%	2.0%	5.1%	6.0%	0.9%
Local Super (SA/NT) - Conservative Option	40	Capital Stable (20-40)	3.1%	2.0%	5.1%	5.8%	0.6%
Local Super (SA/NT) - Growth Option	75	Balanced (60-76)	3.1%	3.5%	6.6%	7.2%	0.5%
Super SA Triple S - Balanced	71	Balanced (60-76)	3.1%	4.0%	7.1%	7.6%	0.5%
ESI Super - Growth Option	80	Growth (77-90)	3.1%	3.5%	6.6%	6.8%	0.1%
MasterSuper - Balanced	70	Balanced (60-76)	3.1%	3.5%	6.6%	6.7%	0.0%
AGEST - Balanced	73	Balanced (60-76)	3.1%	3.5%	6.6%	6.5%	-0.1%
Intrust Core Super - Growth	90	Growth (77-90)	3.1%	4.0%	7.1%	6.9%	-0.2%
Intrust Exec Super - Growth	90	Growth (77-90)	3.1%	4.0%	7.1%	6.9%	-0.2%
Equipsuper Corp - Growth Plus	100	High Growth (91-100)	3.1%	5.0%	8.1%	7.6%	-0.5%
MasterSuper - Growth	85	Growth (77-90)	3.1%	4.0%	7.1%	6.5%	-0.6%
Asset Super - Medium Growth	74	Balanced (60-76)	3.1%	3.0%	6.1%	5.1%	-1.1%
Tasplan - Longer Term Growth	90	Growth (77-90)	3.1%	4.5%	7.6%	6.1%	-1.6%
MasterSuper - Equity Plus	100	High Growth (91-100)	3.1%	4.5%	7.6%	5.7%	-2.0%
Number of Options Ranked							16
Top quartile							0.5%
Median							0.0%
Bottom quartile							-0.5%

SUMMARY COUNT OF INFLATION OBJECTIVES

We identified all diversified options in the SuperRatings' Fund Crediting Rate Survey with a growth ratio greater than or equal to 20%, and that mention "CPI" or "inflation" in their objective. There are 300 investment options that satisfy these criteria. From these 300 options we sought those with objectives that stated a specific time frame, from two to seven years, over which the objective is to be achieved. It then followed that with these two requirements fulfilled, it was possible to measure a targeted performance figure (expressed as a percent per annum above the corresponding CPI rate) over a defined time frame (the time frame needed be specified in a precise number of years, and not merely with the use of phrases such as "long-term" or with a large range of years such as "3 to 5 years"). We also excluded funds with a performance figure specified in pre-tax or before-fee terms as well as those with a targeted performance of zero percent above CPI. The typical CPI-based performance objective targets a return of between one and five percent above CPI, with the higher return targets associated with longer time frames.

Out of the 300 initially filtered options, there now remained just 101 options with precisely-specified time frames from two to seven years, with a non-zero targeted performance above CPI on an after-tax, after-fees basis. The distribution of CPI objective-linked time frames is shown in the table below. We treat all options with a time-frame of two or three years as having a three year CPI-based target, all options with a time-frame of four or five years as having a five-year CPI-based target, and all options with a time-frame of six or seven years as having a seven-year CPI-based target. In our sample we thus classify 23 options as having a three-year CPI-based target, 62 options as having a five-year CPI-based target, and 16 options as having a seven-year CPI-based target.

Precise Time Frame (years)	Number of Options	Average Targeted Return Above CPI
2	1	2.0%
3	22	2.4%
4	6	1.8%
5	56*	3.4%
6	3	3.0%
7	13	3.9%
Total	101	3.1%

* Five options with a time frame of five years qualify their objective with "with a 75% probability".

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