INSIGHTS

MySuper Product Heatmap

December 2020

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Contents

DECEMBER 2020

MySuper Product Heatmap Insights

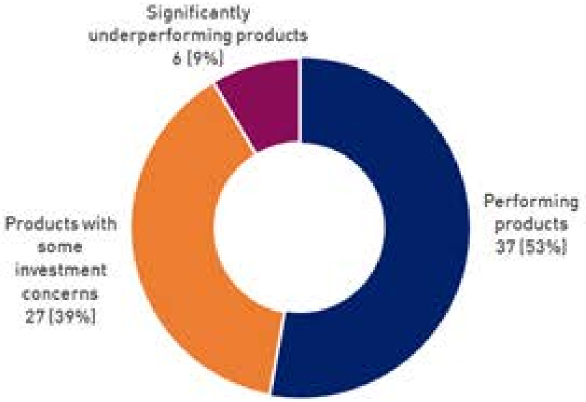
$745b Total assets in MySuper products at 30 June 2020

14m Total MySuper member accounts at 30 June 2020

88 Number of MySuper products at 30 June 2020^

Investment performance

Investment outcomes continue to be varied over 6 years*



Investing in underperforming funds has a large impact on members' account balances

Account balance at 30 June 2020

Invest $50,000 at 30 June 2014

Invest in outperformer $76,415

Difference in Net Return of 2.26% p.a.

$66,846 Invest in underperformer

Account balance is **$9,569 lower** (or -14.3%) after 6 years

Fees and costs

Disclosed total fees and costs are trending downward...

$408m Estimated saving in disclosed total fees and costs since the December 2019 Heatmap

10m Estimated member accounts with a decrease in disclosed total fees and costs since the December 2019 Heatmap

$47 Estimated average decrease in disclosed total fees and costs per member account, for member accounts with a decrease

...but have not gone far enough as high administration fees continue to erode retirement balances

Administration fees paid

$50,000 account balance

Low administration fee $145 p.a.

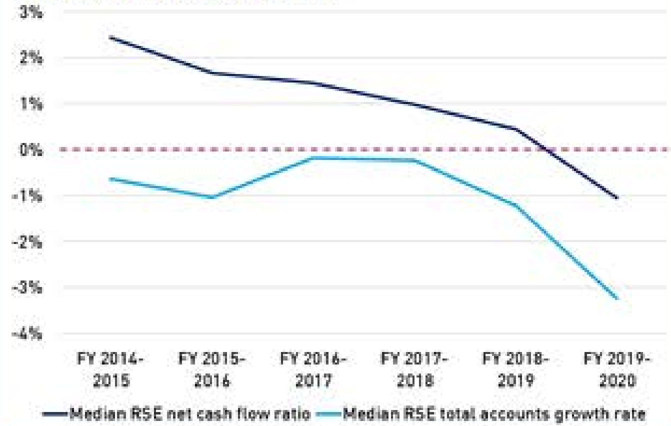
Difference of $229 in administration fees paid

$374 p.a. High administration fee

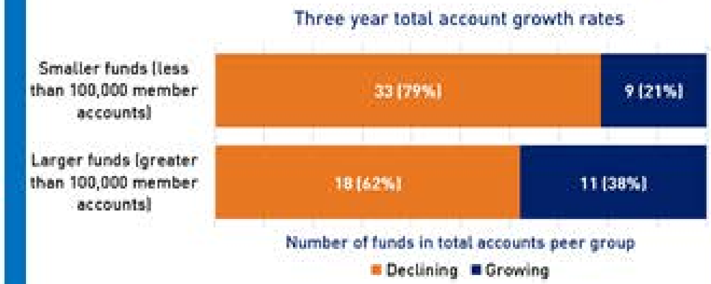
'High' administration fee **= 2.6 times more** than a 'low' administration fee

Sustainability of member outcomes

COVID-19 and other factors have impacted funds during the June 2020 financial year



Smaller funds have been more impacted than larger funds, which may accelerate sustainability challenges

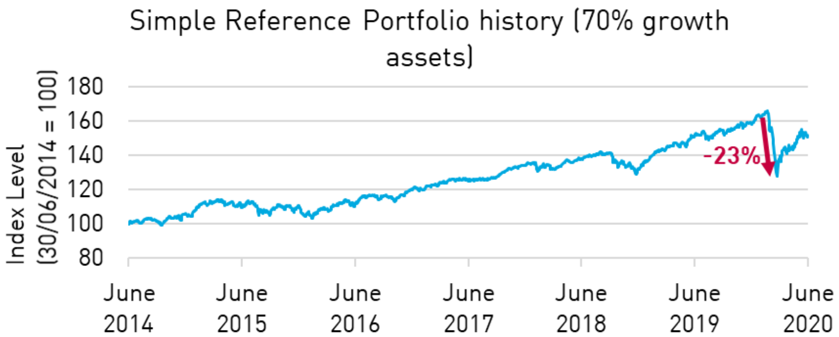


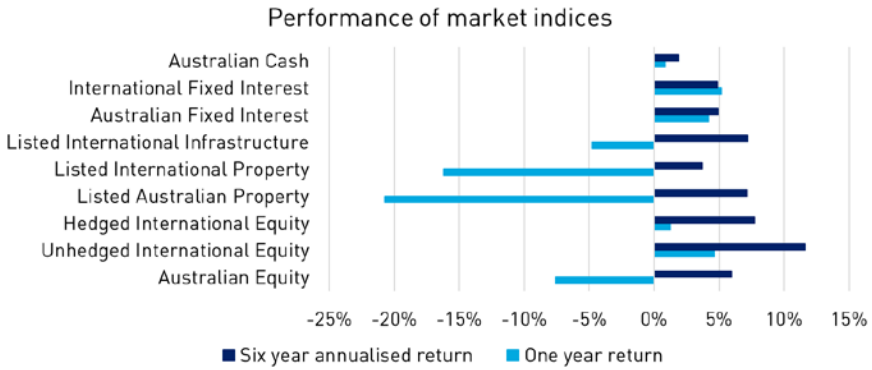
* For products with 6-year return data. Investment outcomes are measured as performance relative to the four heatmap investment benchmarks. Products outperforming the benchmarks on average have been classed as "performing", products underperforming by less than 75 bps per annum on average have been classed as having "some investment concerns" and those underperforming by more than 75 bps per annum on average have been classed as "significantly underperforming"

^ Heatmap data reflects the 84 products that existed as at the Heatmap's release date. 4 products ceased after 30 June 2020, bringing the total from 88 to 84.

Chapter 1 - Investment outcomes continue to be varied after a period of significant instability

Global markets experienced significant volatility over FY 19-20

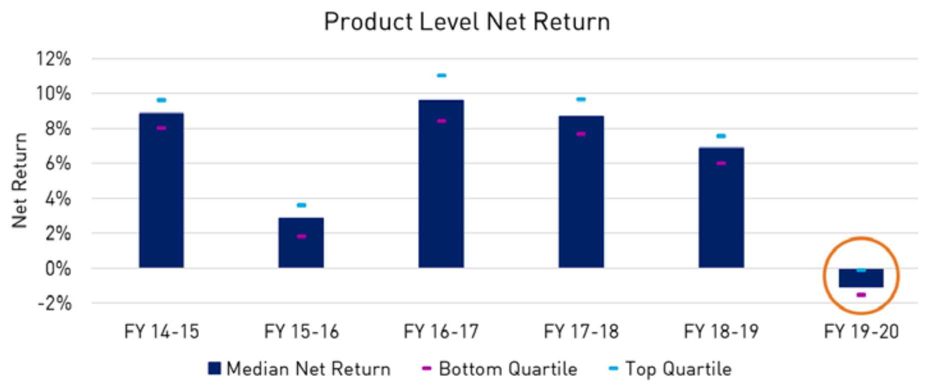


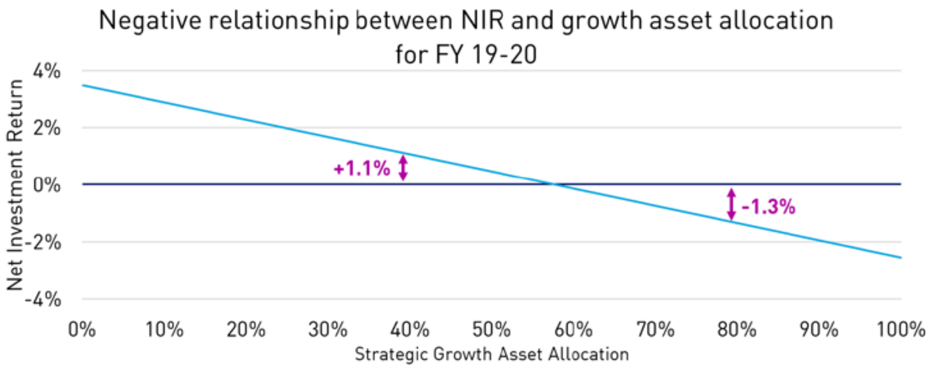


Note: See Appendix A for list of indices used in the Heatmap.

- Markets delivered strong investment returns from the inception of MySuper to the end of 2019. This, combined with low market volatility, provided a favourable environment for superannuation funds, particularly those with higher allocations to growth assets.
- The market environment changed dramatically in the first half of 2020 with the onset of COVID-19, which resulted in the most significant market downturn since the Global Financial Crisis in 2008/9.
- Despite this recent market downturn, growth assets such as international equities, listed international infrastructure and listed Australian property were the best performing asset classes over the 6-year period covered by the Heatmap.
- The future economic outlook remains uncertain, with many countries still experiencing severe economic downturns and dealing with the ongoing prevalence of COVID-19. This is expected to lead to further market volatility and potentially lower returns going forward.
- The increased economic uncertainty means it may be difficult for superannuation funds to achieve the consistently strong, positive returns in the future that they have done in the past.

MySuper investment returns fell over FY 19-20

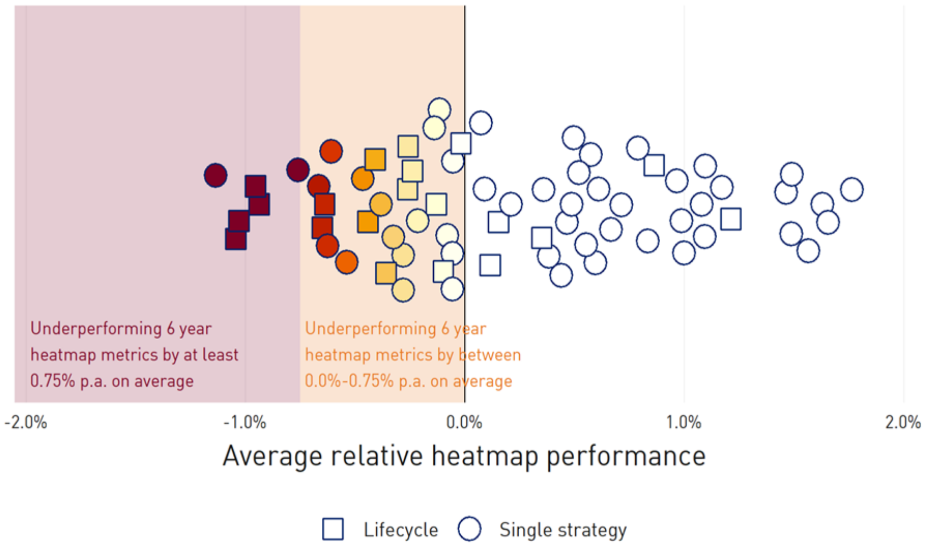




[1,2] See Appendix C (note 1) for details on how product net returns are calculated for lifecycle products and note 2 for details on the peer-derived trendline.

- Despite the large negative returns experienced in many asset classes over FY 19-20, MySuper product returns[1] were cushioned by diversification. The median product experienced a Net Return of -1.1% over the year, the first negative annual return since the inception of MySuper in January 2014.
- In general, single strategy products and lifecycle stages with lower Growth Asset Allocations experienced stronger returns than those with higher Growth Asset Allocations over the last year. Based on a peer-derived trendline, products with a 40% Growth Asset Allocation experienced a Net Investment Return ("NIR") of 1.1%, while products with an 80% Growth Asset Allocation experienced a NIR of -1.3%.
- The negative investment returns, combined with the effects of the COVID-19 Early Release Scheme, resulted in the total value of MySuper assets dropping by $11 billion from $756 billion at 30 June 2019 to $745 billion at 30 June 2020.
- The change in market conditions during 2019/20 illustrates the importance of trustees considering the performance of their investment strategy through a full economic cycle.
- Trustees should set their investment strategy taking into account the needs and characteristics of their membership, the long-term nature of superannuation and the importance of strong investment returns in delivering retirement outcomes for members.

Investment outcomes continue to show some significantly underperforming products

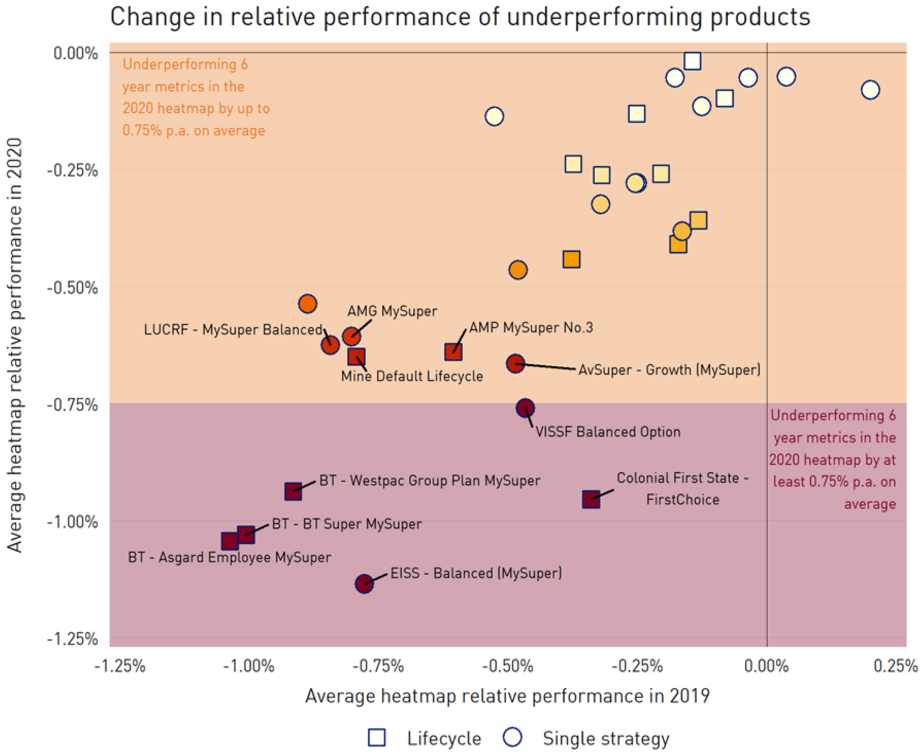


[3] *APRA has calculated the average performance over 6 years for MySuper products against the four Heatmap benchmarks, to determine the 'average relative Heatmap performance'.*

See Appendix C (note 3) for further details on how 'average relative Heatmap performance' is calculated.

- A key insight from the 2019 Heatmap was that investment outcomes are varied across MySuper products. While investment returns have fallen since the 2019 Heatmap, there continues to be both performing and underperforming products.
- Good outcomes are being delivered for many MySuper members, with 53% of products having performance exceeding the Heatmap benchmarks[3] on average over 6 years (up from 45% over 5 years in the 2019 Heatmap).
- The chart plots the average relative Heatmap performance of all the single strategy and lifecycle products over a 6 year period, with the following insights:
  - 37 products (or 53%) perform;
  - 27 products (or 39%) underperform by less than 0.75% p.a.; and
  - 6 products (or 9%) underperform by more than 0.75% p.a.
- While the majority of members are in performing MySuper products, there are over 900,000 member accounts and $31.2 billion of members' benefits invested in the 6 MySuper products that are significantly underperforming.

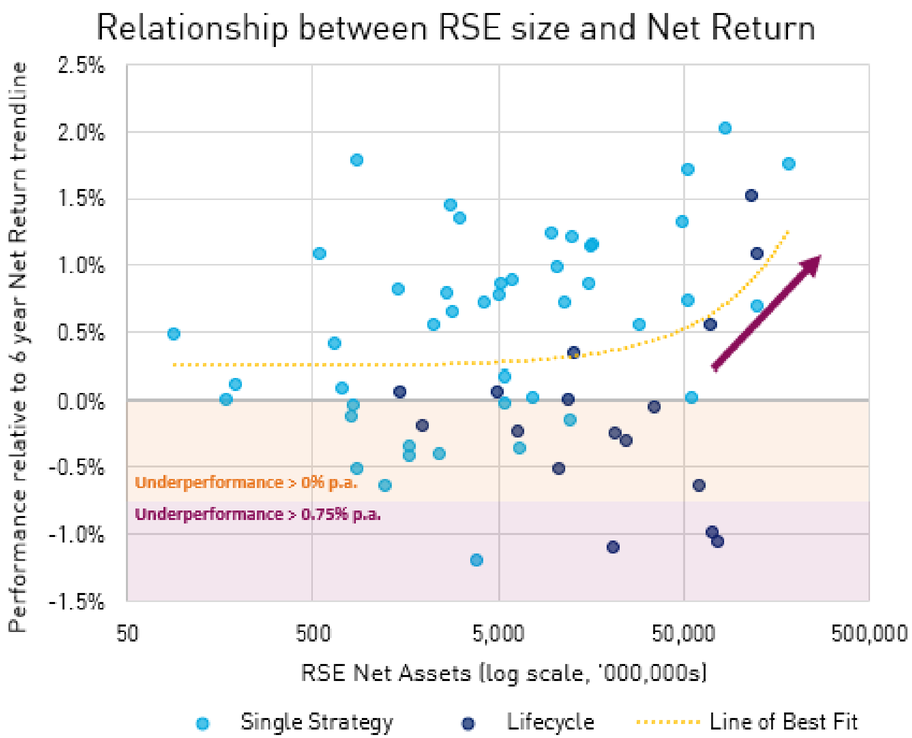
Eleven products with investment concerns exited the market over the last year but others continue to underperform



Note: There are some lifecycle products without a product-level assessment in the Heatmap as they do not have return history for all lifecycle stages.

- The 2019 Heatmap identified 47 products that underperformed the Heatmap benchmarks on average over 5 years. 11 of these products have since ceased.
- In the 2020 Heatmap, 6 MySuper products significantly underperformed the Heatmap benchmarks by at least 0.75% per annum on average over 6 years. Of these 6 products:
  - 4 products were flagged as significantly underperforming in the 2019 Heatmap;
  - 2 products are newly flagging as significantly underperforming in the 2020 Heatmap.
- APRA has maintained its supervisory focus on trustees of underperforming products, and in particular those exhibiting significant underperformance. This has resulted in trustees taking various actions, including investment strategy reviews, product restructures and cessation of products to address underperformance and improve outcomes for members.
- APRA has also increased supervisory intensity of products where the performance history available for some lifecycle stages exhibits significant underperformance.

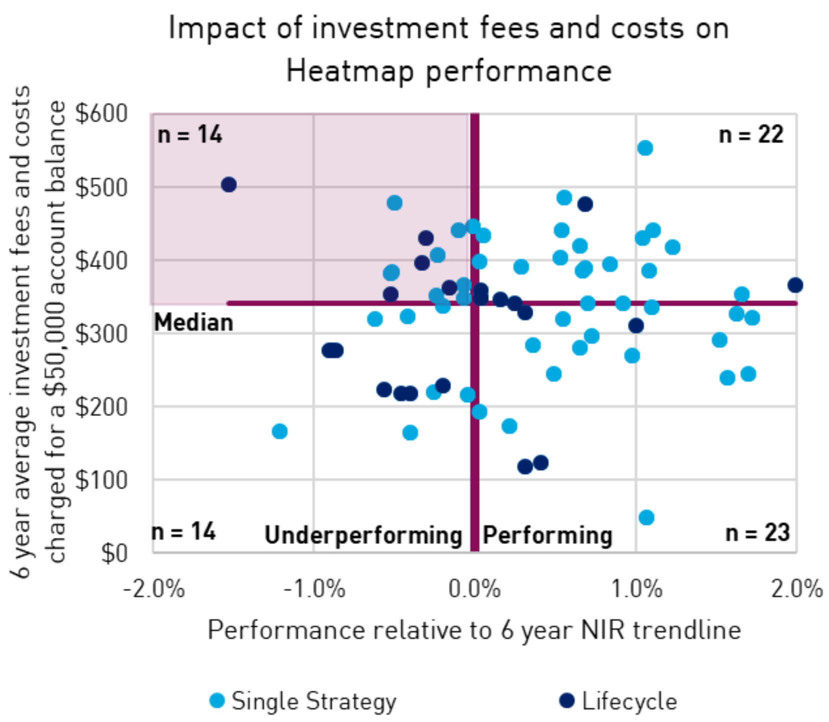
Funds with net assets over $50 billion have experienced the strongest investment performance



Note: large employer MySuper products have been excluded from analysis. The line of best fit is a linear regression shown as a curve due to the log scale on the x-axis.

- There is a positive relationship between the size of the RSE and a product's risk-adjusted Net Returns over 6 years.
- Larger RSEs may have some advantages over smaller RSEs which may allow them to generate stronger net returns for their members. These include the ability to access a wider range of investment opportunities or being able to realise cost efficiencies, which result in lower fees charged to members.
- While some smaller products have delivered good outcomes, a larger proportion of smaller products have underperformed peers compared to larger products:
  - For products in RSEs with Net Assets less than $5 billion, 36% have underperformed on a peer relative basis.
  - For products in RSEs with Net Assets greater than $50 billion, 25% have underperformed on a peer relative basis.
- APRA expects all underperforming RSEs, but particularly smaller ones, to consider strategic options to improve performance, including whether their members would be likely to be better served by another RSE.

Underperformance of some products is due to high investment fees and costs

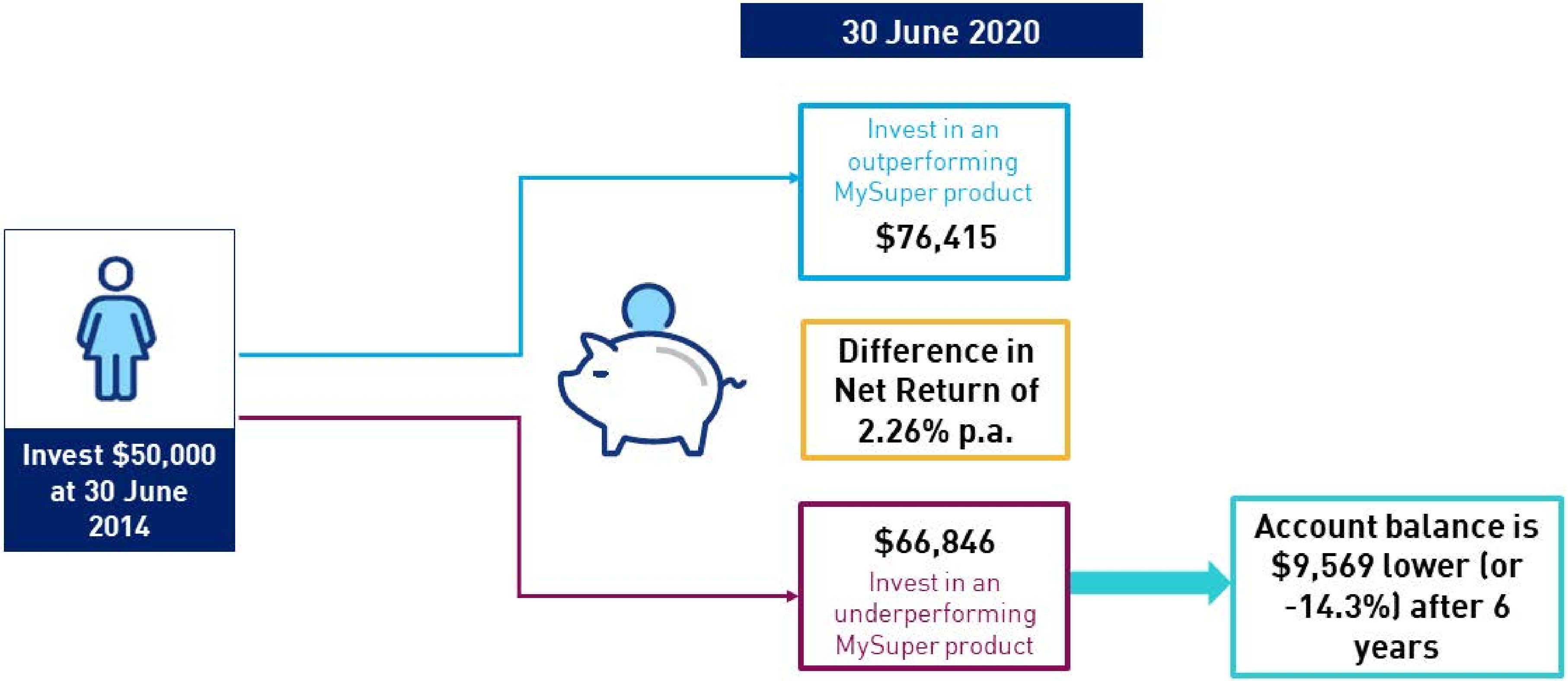


Note: lifecycle products are represented by the stage with the closest growth asset allocation to the median single strategy product. Refer Appendix C (note 4) for data sources used for investment fees and costs.

[5] *Refer to the Appendix C (note 5) for the list of MySuper products underperforming the NIR trendline with above median investment fees.*

- Although there is no clear relationship between fees and performance, a number of products (shaded in chart) have underperformed peers on the 6-year NIR trendline while having high investment fees and costs[5].
- Some trustees noted their high disclosed total fees and costs are due to a more expensive investment strategy, which may seek higher returns over the longer term or to minimise the impact of market downturns.
- Trustees should ensure that they are appropriately compensated for fees and costs incurred, including where higher costs are incurred for certain asset classes or active management. Trustees need to achieve the right balance of managing costs and implementing investment strategies that will add value to members over the long term, after adjusting for risk.
- Trustees should consider the challenging market environment when setting fee structures as the strong investment returns generated in recent years are not guaranteed into the future, whereas high fees will deplete account balances.

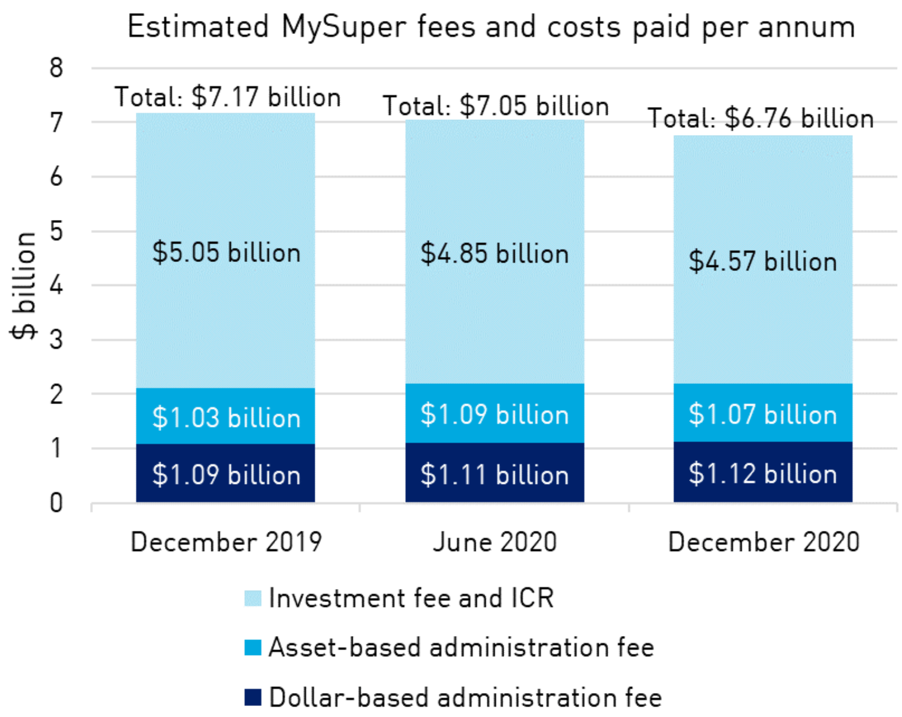
Investing in underperforming funds has a large impact on members' account balances



See Appendix C (note 6) for information on the methodology for the above calculations, including how the product groups were determined. Past performance is not necessarily an indicator of future performance.

Chapter 2 -
Fees and costs are trending down but have not gone far enough

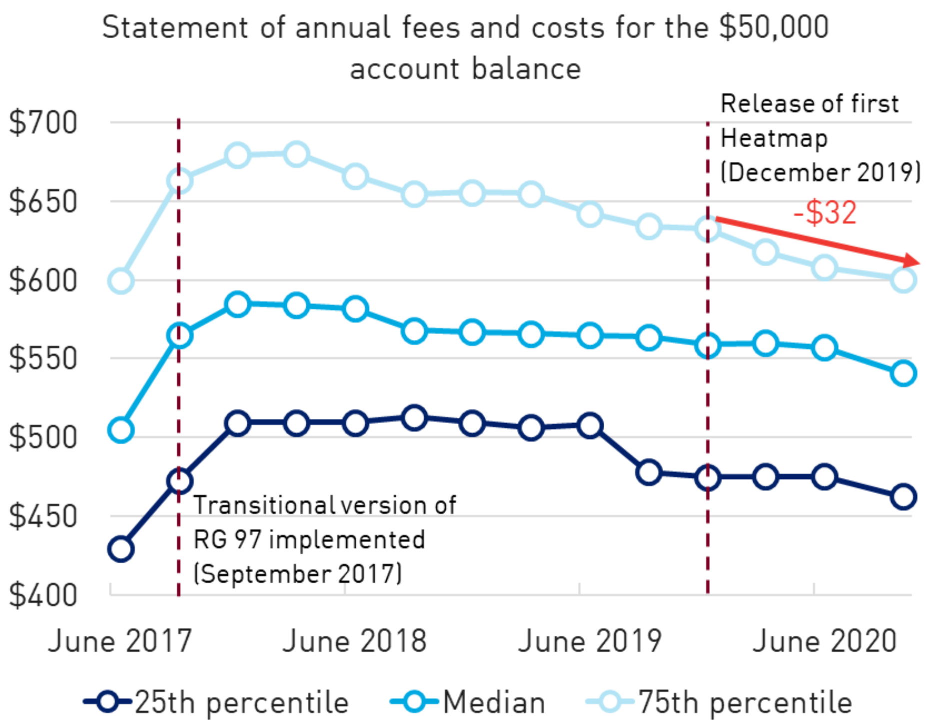
Trustees continue to reduce disclosed total fees and costs, with an estimated saving of $408 million per annum



Note: The estimates relate to the 84 MySuper products operating at the release date of the 2020 Heatmap (i.e. 18 December 2020), using June 2020 members' benefits and accounts data. Refer to Appendix D for more information on the methodology used for the estimates (note 7).

- The estimated aggregate saving of $408 million since the 2019 Heatmap was driven by reductions of $482 million in investment fees and indirect cost ratios (ICR). This was offset by a $74 million increase in administration fees.
  - Approximately 71% of MySuper members as at 30 June 2020 (or 10 million members) have seen a decrease in disclosed total fees and costs since the 2019 Heatmap.
  - For members who have seen lower disclosed fees and costs, the estimated average reduction per member account was $47 per annum, reducing from $504 to $457.
  - Since the 2019 Heatmap, an estimated 16% of MySuper members had an increase in disclosed total fees and costs. For these members, the estimated average increase per member account was $29, increasing from $447 to $476.
- While the above aggregate saving is positive, aggregate MySuper fees and costs remain high and further reductions are needed.

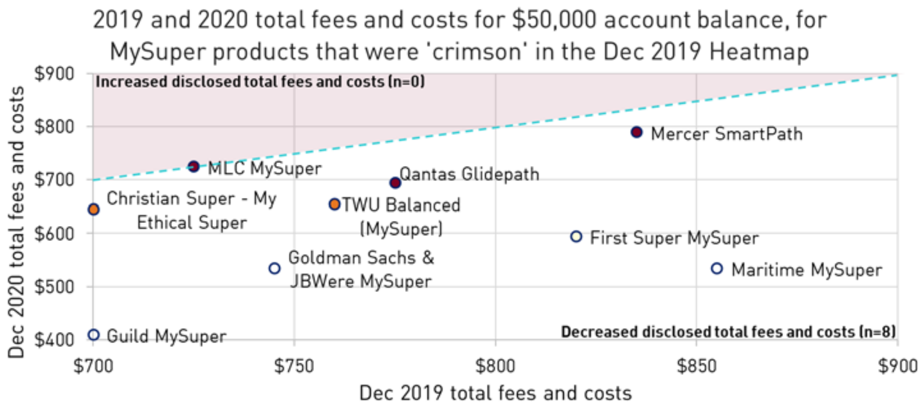
High-fee MySuper products are reducing fees and costs, but should go further

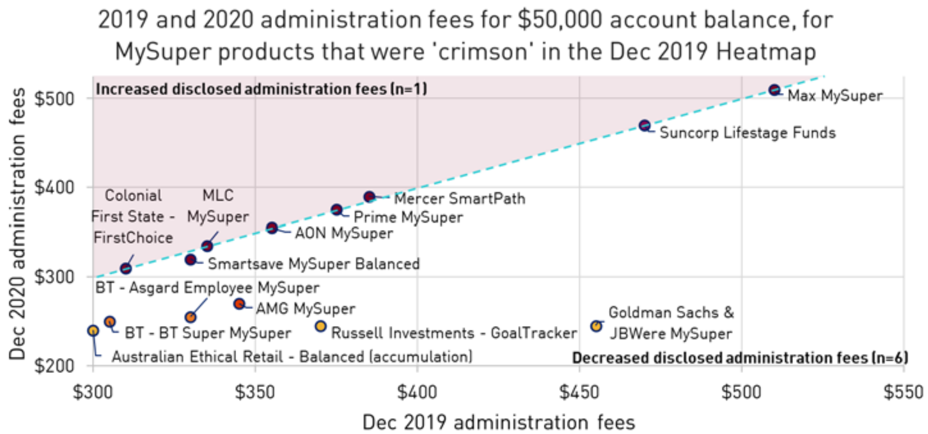


Note: For lifecycle products, data in the time-series graph uses the lifecycle stage with the highest statement of fees and costs, to enable comparisons with single-strategy products.

- The fees and costs of the most expensive products (as indicated by the 75th percentile level) have trended downward markedly since June 2018, and decreased further since the release of the first Heatmap.
- Of the 84 MySuper products still operating at the 2020 Heatmap release date, 47 have lowered total disclosed fees and costs across all representative account balances, while 14 have increased disclosed total fees and costs.
- Fee reductions, mergers and product consolidations have narrowed the 75th percentile of disclosed fees and costs compared to the median, which has remained relatively steady. There is still a large gap between the 25th percentile and both the median and 75th percentile, indicating a wide range of fees practices and hence room for further improvement.
- APRA acknowledges that fees and costs cannot be considered in isolation, and must be balanced with ongoing investment into operating infrastructure and capabilities. Trustees need to charge sufficient fees to cover long term sustainable operating costs, rather than cutting fees to unsustainable levels.
- Nevertheless, APRA expects trustees to focus on continuous improvement and look for ways to maximise operational efficiencies to reduce costs and pass on savings to members.

Trustees have taken action to address high MySuper fees and costs identified in the first Heatmap

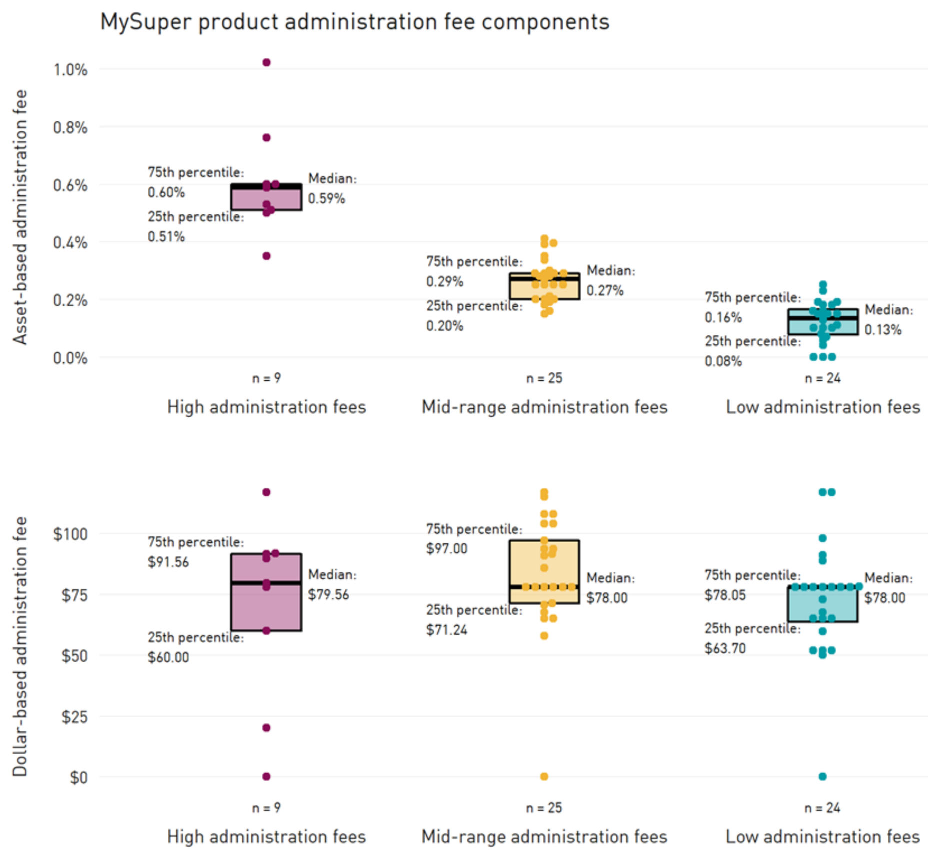




Note: Chart uses product-level assessment for lifecycle products (refer to note 8 in Appendix D for more information). Colour of dots corresponds to the product's colour in 2020 Heatmap.

- The 2019 Heatmap identified 11 MySuper products that were flagged as "crimson" (or high) on total fees and costs[8], and 18 MySuper products with high administration fees, for a $50,000 account balance.
  - 8 of the 9 remaining products (2 products have ceased in 2020) have decreased their total disclosed fees and costs, by an average of $166.
  - 7 of the 14 remaining products (4 products have ceased in 2020) have reduced disclosed administration fees, by an average of $87.
- The 2020 Heatmap did not identify new MySuper products for high fees. APRA expects further fee reductions (which will be reflected in future Heatmaps) to be made as trustees implement fee-reduction plans after 1 October 2020 (the 'as at date' for fees and costs data in the 2020 Heatmap).
  - MLC Super Fund's 'MySuper' product and Colonial First State Superannuation Trust's MySuper product have reduced their disclosed administration fees, based on their respective PDSs effective 1 December 2020 and 30 November 2020. However, both products have seen an increase in the ICR across all lifecycle stages.

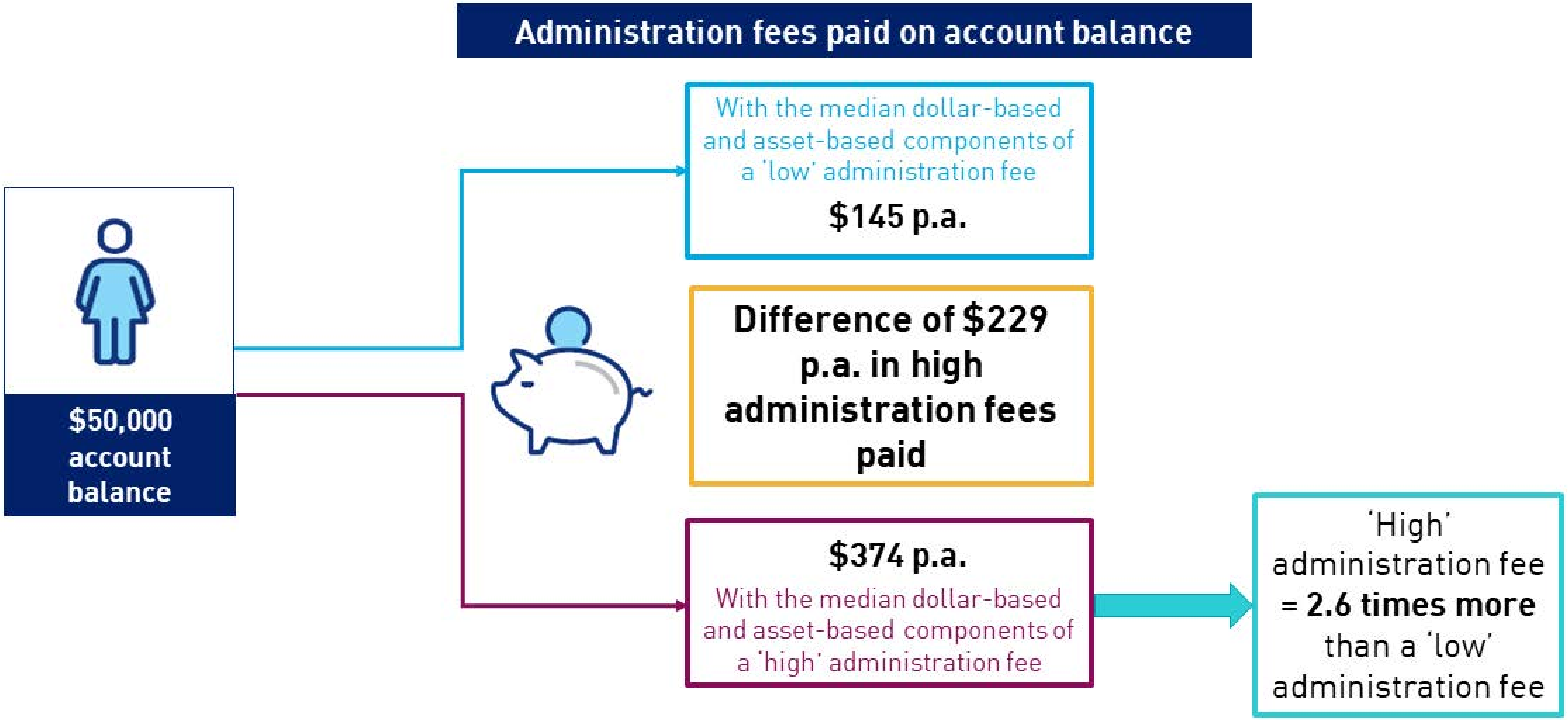
High asset-based administration fees are driving high administration fees



[9] *Refer to Appendix D (note 9) for more information on how these groups are determined.*

- Administration fees typically comprise a combination of dollar-based and asset-based fees.
- There is no material difference in the dollar-based administration fees across MySuper products. However, there are substantial differences in asset-based administration fees – low administration fee products have asset-based administration fees significantly lower than high administration fee products, with a median of 0.13% compared to 0.59%.[9]
- Fees and costs should be structured to reflect the fund's operating costs per member account, and trustees must be able to justify the relative positioning of their administration fee to other products. High administration fees can often be attributed to high operating costs associated with 'premium' product offerings, legacy systems and particular operating models.
- MySuper products are expected to be simple, cost-effective and well-designed products that contain the essential features required by most members. Trustees must be able to demonstrate that 'premium' services generate improved financial outcomes for members.

Members with a $50,000 balance can pay more than 2.5 times higher administration fees, eroding their retirement balances



Chapter 3 -
The impact of COVID-19 and other factors may accelerate sustainability challanges for some funds

The importance of sustainability

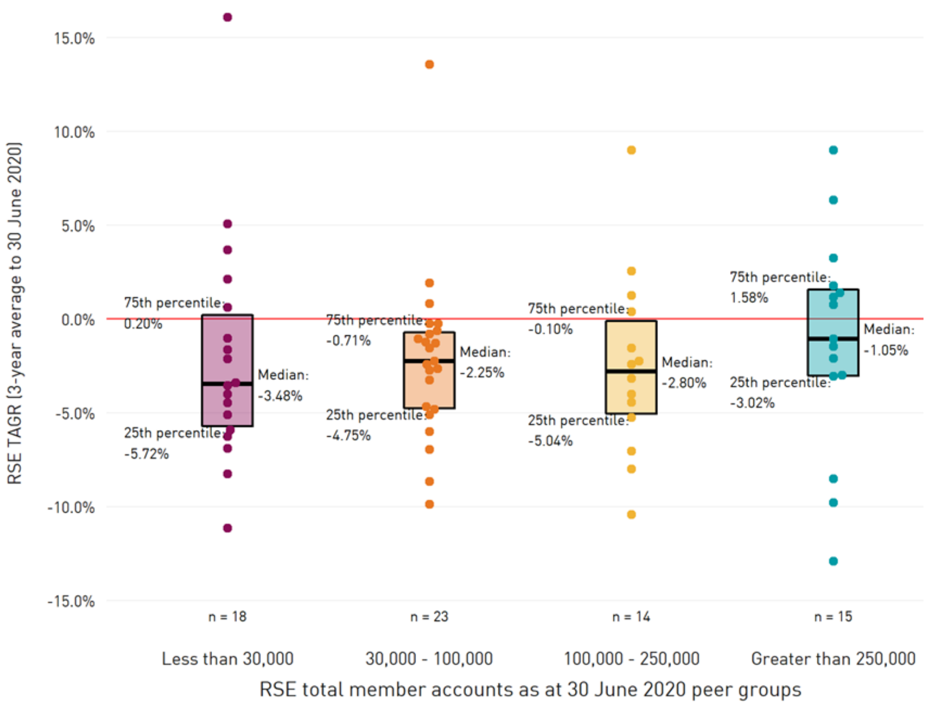
- Sustainability of member outcomes reflects the trustee's ability to continue delivering good financial outcomes to members into the future, and/or address areas that require improvement. In an industry where retirement outcomes are delivered over decades, trustees must be able to deliver sound outcomes over the long term if they are to truly safeguard their members' best interests.

- Scale is a driver of sustainability. While it is not a guarantee of good performance, nor an insurmountable barrier to it, larger funds are typically better able to negotiate scale discounts with service providers, access a wider range of investment markets, and spread the cost of their operations over a larger membership base. All of these scale benefits can ultimately contribute to better outcomes for members now and into the future.

- APRA's analysis indicates a number of smaller funds servicing specific niches have exhibited positive trends in sustainability metrics and are also performing well across the investment performance and fees and costs metrics. Nevertheless, all trustees must be able to demonstrate their ability to deliver quality outcomes to members in the medium to long term, or consider whether their members are likely to be better served in another fund.

The uncertain outlook is expected to present challenges for some funds in delivering sustainable member outcomes (1/2)

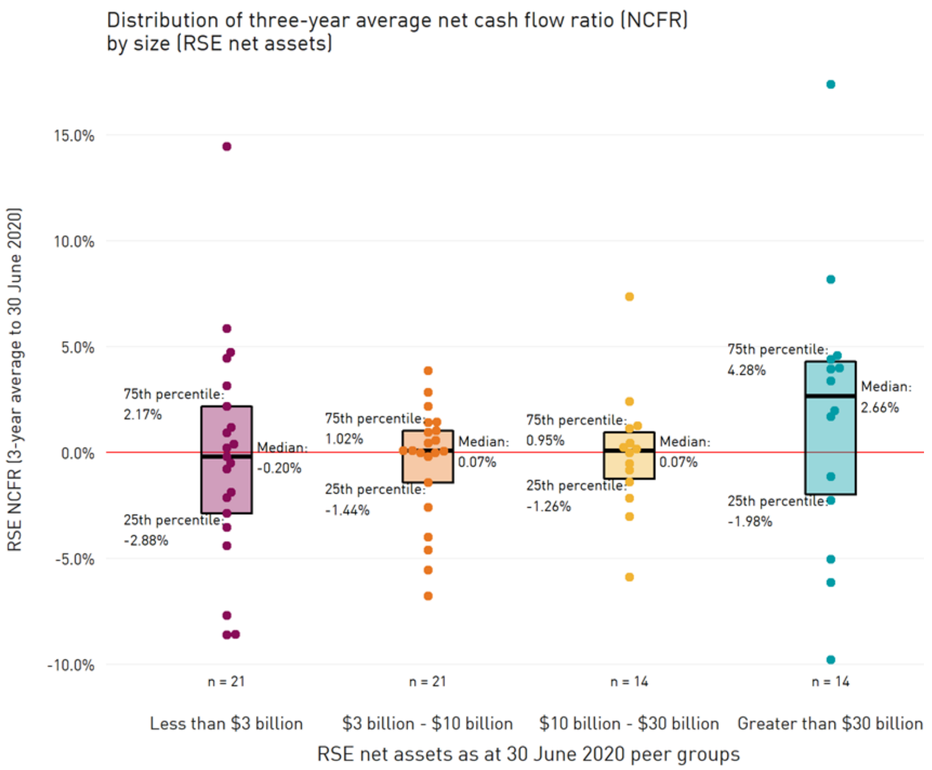
Distribution of three-year average adjusted total accounts growth rate (TAGR) by size (RSE member accounts)



Note: For all analysis in this chapter, Australian Defence Force Superannuation Scheme has been excluded due to large outlier values.

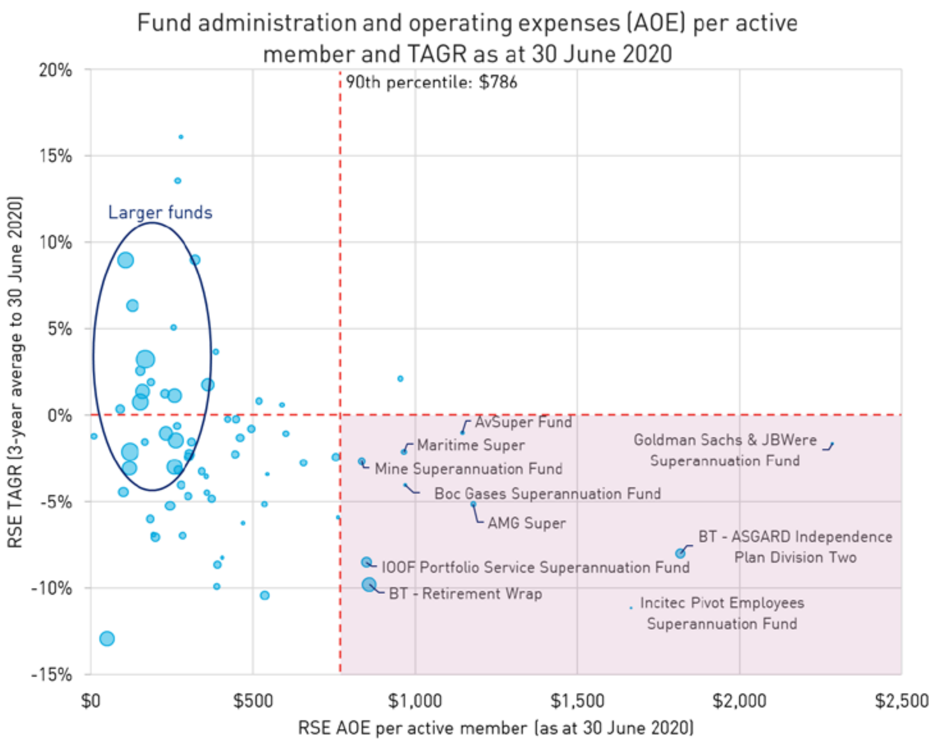
- Recent legislative measures such as the *Protecting Your Superannuation Package* and the COVID-19 Early Release Scheme have resulted in account closures across the industry.
  - There was a decline of 3 million member accounts (or 13.3% of total member accounts) during the June 2020 financial year, across all APRA-regulated funds with more than four members (from 25.5 million to 22.5 million).
  - Approximately 177,000 member accounts closed due to balance depletion via the COVID-19 Early Release Scheme as at 29 November 2020.
- These measures have had an impact on funds' Total Accounts Growth Rates (TAGR) irrespective of size, as indicated by the negative median TAGRs across RSEs with different total numbers of member accounts.
- Analysis of the 2020 Heatmap data indicates a relationship between fund size and the ability of a fund to grow its membership base through attracting and retaining members. Smaller funds, particularly those with fewer than 30,000 accounts, also experienced more adverse trends in membership growth compared to larger funds with more than 250,000 accounts (as indicated by the median, 25th and 75th percentile levels).

The uncertain outlook is expected to present challenges for some funds in delivering sustainable member outcomes (2/2)



- The effects of the COVID-19 crisis (which resulted in an economic recession and high unemployment) may have long-term adverse impacts for some funds.
- Declining returns, reduced contributions and reduced membership bases combined with increased early release payments (approximately $35.5 billion as at 29 November 2020) has created volatility in the net cash flow positions of funds, and will put pressure on fund revenue and the ability of some funds to continue to provide sustainable outcomes to members.
- Analysis of the 2020 Heatmap metrics indicates that funds with smaller scale (particularly those with less than $3 billion in net assets) were more likely to have negative trends in their Net Cash Flow Ratio (NCFR), as indicated by their NCFR of -0.36%. Larger funds (greater than $30 billion) are also capturing an increasing share of system-level cash flows, as indicated by their median NCFR of 2.67%.
- Trustees that are well-resourced, well-governed and have resilient operating models are most likely to be better positioned to weather the long-term impacts of COVID-19.

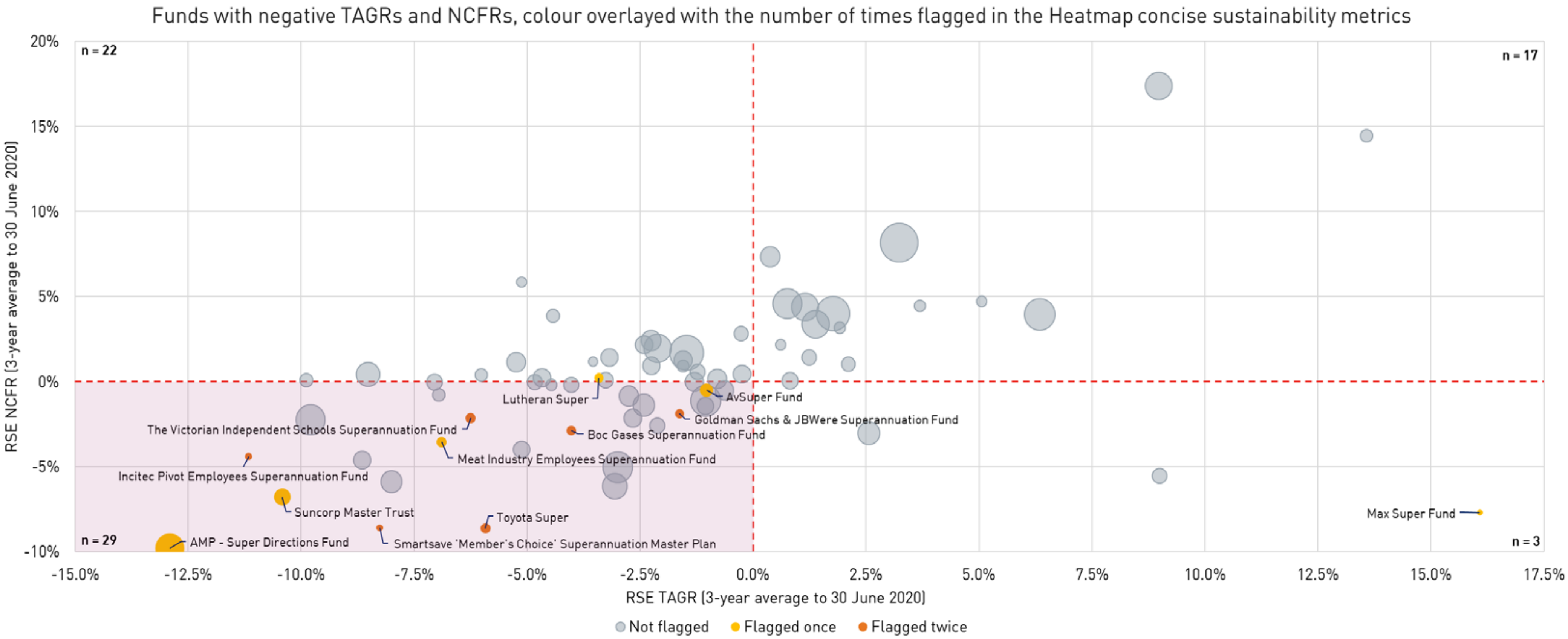
Funds must ensure they are resilient and cost efficient to deliver competitive outcomes into the future



Note: Size of bubbles corresponds to the fund's total accounts as at 30 June 2020.

- Larger funds are generally able to operate with lower costs per member and maintain their membership base compared with smaller funds (as a result of economies of scale).
- Funds with more than 250,000 member accounts have a median Administration and Operating Expenses (AOE) per active member of $168 and median 3-year average TAGR of -1.05%. This compares to funds with less than 30,000 member accounts, with a higher median AOE per active member of $543 and a median 3-year average TAGR of -3.48%.
- To address the pressure on revenue and higher operating costs in the current environment, some trustees may need to:
  - Increase fees, which adversely impacts net returns;
  - Reduce costs, which may lead to under-investment in product offerings and operational capability; or
  - Use reserves, however fees will need to be increased or operating costs reduced once reserves are depleted.
- Trustees must ensure that they implement plans to address these challenges and ensure the sustainable delivery of outcomes to members over the medium to long term, or consider strategic options such as whether their members are likely to be better served in another fund.

Smaller-scaled funds with negative trends face sustainability challenges



Note: Size of bubbles corresponds to the RSE's net assets as at 30 June 2020. RSEs represented as grey bubbles in shaded area exhibit negative trends in NCFR and TAGR but did not trigger the Heatmap's 'sustainability of member outcomes' thresholds. See Information Paper for further details on colour thresholds.

Appendices

Appendix A - Investment indices

Asset Class	Index[1]	Fee Assumption p.a.	Assumed effective tax rate p.a.	Bloomberg ticker[1]
Australian Equity	S&P/ASX 300	0.05%	0.00%	ASA52
International Equity (hedged)	MSCI All Country World Ex-Australia Equities Index with Special Tax (100% hedged to AUD)	0.11%	14.00%	DE725341
International Equity (unhedged)	MSCI All Country World Ex-Australia Equities Index with Special Tax (unhedged in AUD)	0.09%	14.00%	DN714533
Australian Property	S&P/ASX 300 A-REIT Index	0.12%	14.00%	ASA6PROP
International Property	FTSE EPRA Nareit Developed ex Aus Rental 100% Hedged to AUD Net Tax (Super) Index	0.22%	14.00%	RAHRSAH[2]
Australian Infrastructure	FTSE Developed Core Infrastructure 100% Hedged to AUD Net Tax (Super) Index	0.26%	14.00%	FDCIISAH[2]
International Infrastructure	FTSE Developed Core Infrastructure 100% Hedged to AUD Net Tax (Super) Index	0.26%	14.00%	FDCIISAH[2]
Australian Fixed Interest	Bloomberg Ausbond Composite 0+ Index	0.10%	15.00%	BACM0
International Fixed Interest	Bloomberg Barclays Global Aggregate Index (hedged in AUD)	0.10%	15.00%	LEGATRAH
Australian Cash	Bloomberg Ausbond Bank Bill Index	0.04%	15.00%	BAUBIL

[1] Total return indices (that is, returns inclusive of dividends as well as capital gains) have been used.

[2] The FTSE indices are not currently available through Bloomberg. The codes provided are FTSE's index codes.

Asset Class	Index[1]	Fee Assumption p.a.	Assumed effective tax rate p.a.	Bloomberg ticker[1]
International Cash	Bloomberg Ausbond Bank Bill Index	0.04%	15.00%	BAUBIL
Other (assets categorised as Other / Commodities)	25% International Equity (hedged), 25% International Equity (unhedged), 50% International Fixed Interest	As per the underlying asset classes		

Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

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Source: The blended returns are calculated by APRA using end of day index level values licensed from MSCI ("MSCI Data"). For the avoidance of doubt, MSCI is not the benchmark "administrator" for, or a "contributor", "submitter" or "supervised contributor" to, the blended returns, and the MSCI Data is not considered a "contribution" or "submission" in relation to the blended returns, as those terms may be defined in any rules, laws, regulations, legislation or international standards. MSCI Data is provided "AS IS" without warranty or liability and no copying or distribution is permitted. MSCI does not make any representation regarding the advisability of any investment or strategy and does not sponsor, promote, issue, sell or otherwise recommend or endorse any investment or strategy, including any financial products or strategies based on, tracking or otherwise utilizing any MSCI Data, models, analytics or other materials or information.

Appendix B - MySuper population changes since the 2019 Heatmap

Effective date	Registrable Superannuation Entity (RSE)	MySuper product	Type of change
31 October 2019	Club Super	Club MySuper	RSE wind-up, transferred to HOSTPLUS
27 February 2020	Westpac Mastertrust – Superannuation Division	BT Business MySuper	Product ceased, transferred to Retirement Wrap
2 April 2020	AMP Superannuation Savings Trust	Australia Post MySuper	Product ceased, transferred to AustralianSuper
29 April 2020	AMP Superannuation Savings Trust	Anglican National MySuper	Product ceased, transferred to Mercer Super Trust
15 May 2020	AMP Retirement Trust	AMP MySuper No.1	RSE wind-up, consolidated to Super Directions Fund's 'AMP MySuper No. 3' product
15 May 2020	AMP Superannuation Savings Trust	AMP MySuper No.2	RSE wind-up, consolidated to Super Directions Fund's 'AMP MySuper No. 3' product
1 June 2020	Pitcher Retirement Plan	Pitcher Retirement Plan MySuper	RSE wind-up, transferred to equipsuper
30 June 2020	LESF Super	LESF MySuper	RSE wind-up, transferred to Smartsave 'Member's Choice' Superannuation Master Plan

Effective date	Registrable Superannuation Entity (RSE)	MySuper product	Type of change
30 June 2020	United Technologies Corporation Retirement Plan	Balanced	RSE wind-up, transferred to Sunsuper
30 June 2020	Victorian Superannuation Fund	Growth (MySuper)	RSE wind-up, product offered under Aware Super
30 October 2020	Perpetual's Select Superannuation Fund	Perpetual MySuper	Product ceased, transferred to Care Super
14 November 2020	IAG & NRMA Superannuation Plan	MySuper	RSE wind-up, transferred to Sunsuper
16 November 2020	Super Directions Fund	CCA MySuper	Product ceased, transferred to Sunsuper
3 December 2020	WA Local Government Superannuation Plan	My WA Super	RSE wind-up, transferred to Aware Super

Appendix C - Notes from Chapter One

Investment outcomes continue to be varied after a period of significant market volatility

1. The product return of a lifecycle product is the weighted average of the performance of the underlying lifecycle stages, where the weights of each lifecycle stage are based on the time spent in the lifecycle stage and an assumed contribution experience. See the Information Paper for further details.

2. The peer derived trendline has been created by plotting the Net Investment Return for the 2019/20 financial year for all single strategy products and lifecycle stages against their average strategic allocation to growth assets over the year.

3. Product-level Heatmap performance has been derived by taking the average of the performance relative to the Net Return trendline, Net Investment Return trendline, the Simple Reference Portfolio and the Strategic Asset Allocation Benchmark Portfolio. For example, the following table shows the performance of an illustrative product relative to the four Heatmap metrics over six years.

Performance relative to Net Investment Return trendline	Performance relative to Simple Reference Portfolio	Performance relative to Listed Strategic Asset Allocation Benchmark Portfolio	Performance relative to Net Return trendline
-0.30% per annum	+0.18% per annum	+0.23% per annum	-0.51% per annum

The average Heatmap performance over six years is calculated as (-0.30% + 0.18% + 0.23% - 0.51%)/4 = -0.10% per annum.

4. Data shown represents investment fees and costs charged to members as reported to APRA in Item 1 of *Reporting Standard SRS 702.0 Investment Performance*. Lifecycle products are represented by the stage with the closest growth asset allocation to the median single strategy product.

5. **Products underperforming the NIR trendline with above median investment fees are**: AvSuper Growth (MySuper), Christian Super 'My Ethical Super', Energy Super 'MySuper', Guild Retirement Fund (MySuper), Labour Union Co-operative Retirement Fund 'MySuper (Balanced)', Maritime Super 'MySuper investment option', Mercer Santos MySuper, Mine Superannuation Fund 'Default Lifecycle', MLC Super Fund 'NAB Staff MySuper', NESS MySuper, AMP - Super Directions Fund 'AMP MySuper No. 3', Telstra Super MySuper, Toyota Super 'MySuper Growth', TWU Superannuation Fund 'Balanced (MySuper)'.

6. To illustrate the member impact of investing in an underperforming product (net of all fees, costs and taxes for a $50,000 representative member), APRA has identified the 10 products with the highest underperformance relative to the 6-year Net Return trendline (the Trendline) and the 10 products with the highest outperformance relative to the Trendline.

   The average out/under-performance relative to the Trendline is calculated for the 10 products with the highest outperformance and for the 10 products with the highest underperformance.

   To calculate the member impact on a risk-adjusted basis, a 70% growth allocation is used to compare the performance of the highest performing and worst performing groups. The net return of the highest performing group is determined by adding the average outperformance to the assumed net return of a product with 70% growth asset allocation on the Trendline. The net return of the worst performing group is similarly determined by subtracting the average underperformance from the assumed net return level on the Trendline.

   The net returns of the highest performing group and the worst performing group are then applied to an initial balance of $50,000 (with no additional contributions) to calculate the account balance of a member in an outperforming product and an underperforming product after 6 years. A simple example is shown below.

Assumed return of a product with 70% growth asset allocation on the 6-year Net Return trendline	6.0% p.a.
Average outperformance of the 10 products with the highest outperformance relative to the Net Return trendline	+1.5% p.a.
Average underperformance of the 10 products with the highest underperformance relative to the Net Return trendline	-1.0% p.a.

Account balance from investing in an outperforming product over six years = $\$50{,}000 \times (1 + 6.0\% + 1.5\%)^{6} = \$77{,}165$

Account balance from investing in an underperforming product over six years = $\$50{,}000 \times (1 + 6.0\% - 1.0\%)^{6} = \$67{,}005$

- 10 products with highest performance relative to Net Return trendline: Australian Ethical Retail Superannuation Fund 'Balanced (accumulation)', AustralianSuper MySuper, Growth (Cbus MySuper), First Super MySuper, HOSTPLUS 'Balanced option', MIESF MySuper, QSuper Lifetime, Statewide MySuper, AMP - Super Directions Fund 'Macquarie Group MySuper', UniSuper 'Balanced'.
- 10 products with worst performance relative to Net Return trendline: AMG MySuper, AMP - Super Directions Fund 'AMP MySuper No. 3', BT – ASGARD Independence Plan Division Two 'Asgard Employee MySuper', BT – Retirement Wrap 'BT Super MySuper', BT – Retirement Wrap 'Westpac Group Plan MySuper', Colonial First State FirstChoice Superannuation Trust, Christian Super 'My Ethical Super', Energy Industries Superannuation Scheme 'Balanced (MySuper)', Mine Superannuation Fund 'Default Lifecycle', VISSF Balanced Option.

Appendix D - Notes from Chapter Two

Fees and costs are trending downward but have not gone far enough

7. Chapter two of this Insights Paper contains system-level estimates for administration, investment and ICR, and total fees and costs paid per annum. This calculation enables comparisons between the fee structures underlying the December 2019, June 2020 and December 2020 Heatmaps by using June 2020 annual data for total member benefits and member accounts and holding these factors constant.[3]

   The estimates for administration, investment and ICR, and total fees are:

   - $Estimated\ administration\ fees = (Number\ of\ member\ accounts\ \times dollar\ based\ administration\ fee\ disclosed\ p.a.) + (total\ members'\ benefits\ \times asset\ based\ administration\ fee\ p.a.)$

   - $Estimated\ investment\ fees\ and\ ICRs = (total\ members'\ benefits\ \times investment\ fee\ and\ ICR\ disclosed\ p.a.)$

   - $Estimated\ total\ fees\ and\ costs = Estimated\ administration\ fees\ + Estimated\ investment\ fees\ and\ ICRs$

   The total member accounts and members' benefits data is sourced from data collected under *Reporting Standard SRS 610.2 Membership Profile*; the June 2020 edition of the *Annual MySuper Statistics* publishes product-level data for each MySuper product.

   A simple example of how the fees and costs paid per annum by members are estimated is provided on the next page.

[3] The December 2019, June 2020 and December 2020 Heatmaps' 'as at' dates for fees and costs data are 15 November 2019, 29 May 2020 and 1 October 2020 respectively.

Consider the example of two MySuper products, ADV MySuper (a single strategy product) and FUJ MySuper (a lifecycle product), and their fee structures as follows:

MySuper product	Dollar-based administration fee per annum	Asset-based administration fee per annum	Investment fee and ICR per annum
ADV MySuper	$78	0.6%	0.3%
FUJ MySuper	-	-	-
FUJ MySuper Lifestage 1	$50	0.2%	0.8%
FUJ MySuper Lifestage 2	$50	0.2%	0.6%
FUJ MySuper Lifestage 3	$50	0.2%	0.4%

The estimates of the administration, investment and ICR, and total fees and costs paid for ADV MySuper and FUJ MySuper can be found in the following table on the next page.

				Fees and costs paid	
MySuper product	Total member benefits	Total member accounts	Estimated administration fees	Estimated investment fees and ICR	Estimated total fees and costs
ADV MySuper	$24,988,012,000	490,000	$188,148,072	$74,964,036	**$263,112,108**
FUJ MySuper	$954,140,000	18,621	$2,839,330	$7,099,632	**$9,938,962**
FUJ MySuper Lifestage 1	*$700,269,000*	*15,222*	*$2,161,638*	*$5,602,152*	***$7,763,790***
FUJ MySuper Lifestage 2	*$240,998,000*	*3,111*	*$637,546*	*$1,445,988*	***$2,083,534***
FUJ MySuper Lifestage 3	*$12,873,000*	*288*	*$40,146*	*$51,492*	***$91,638***

APRA acknowledges that in reality the fees and costs paid by members would fluctuate with changes in the underlying value of members' benefits, and changes in membership base. APRA has conducted this analysis at the product level, as it does not currently collect member-level data; as a result, fee caps, and employer discounts and subsidies were not considered.

8. The product-level assessment of disclosed total fees and costs for lifecycle products uses the disclosed total fees and costs for the lifecycle stage with the most member accounts.

9. The MySuper products in the *high administration fees* group consist of products who have flagged as 'crimson' for at least three account balances in the administration fees metrics. A similar approach is used for the group of MySuper products with *low administration fees* for products who are 'clear' (or no colour) for at least three account balances in the administration fees metrics. *Mid-range administration fees* consist of all other MySuper products not in the low or high administration fee groups.

   - The MySuper products identified as having high administration fees are: Colonial First State FirstChoice Superannuation Trust, SmartSave MySuper Balanced, IOOF MySuper, Aon MySuper, Mercer SmartPath, MLC Super Fund 'MySuper', Prime Super 'MySuper', Suncorp Lifestage Funds, and Max Super Fund MySuper Plan.

   - The MySuper products identified as having low administration fees are: AMIST MySuper, AustralianSuper MySuper, AvSuper Growth (MySuper), BUSSQ MySuper, CareSuper, Energy Super 'MySuper', Aware Super 'First State Super MySuper Lifecycle', Aware Super 'Growth (VicSuper)', Health Employees Superannuation Trust Australia 'Balanced Growth', HOSTPLUS Superannuation Fund 'Balanced option', LGIASuper MySuper Lifecycle, Media Super 'Balanced investment option', MTAA Superannuation Fund 'My AutoSuper', NESS MySuper, NGS Super 'Diversified (MySuper)', ANZ Smart Choice Super, QSuper Lifetime, REST Super, Bendigo MySuper, Statewide MySuper, Sunsuper for Life, Tasplan MySuper, Equipsuper MySuper and Vision MySuper.

   - Large employer products and products offered by non-public offer RSEs have been excluded from this analysis.

APRA