

## Fund Quality Assessment<sup>®</sup>

Independent quality assessments and market wide comparisons

↘ A SelectingSuper **Fund Quality Assessment** is a review of a super fund's quality. It is an independent stamp of approval by one of Australia's leading financial services research companies, Rainmaker Information.

The quality assessment is however not financial advice and it does not tell a fund member to put their money into that super fund. But it does say that a particular super fund delivers what it promises and delivers it to a very high standard. The question for the member, and their financial adviser if they have one, is to decide if this particular super fund offers the range of features and services that they need and want.

The research engine behind SelectingSuper, **Rainmaker**, has been reviewing super funds since 1992 and is an industry leader in how to make sense of, judge and assess super funds and financial services. The techniques developed by Rainmaker are now used widely across the industry and taught in Australia's universities. Rainmaker also advises governments, industry regulators, industry associations and interest groups and has relationships with most major market regulators and consumer groups.

Reflecting this depth of research, Rainmaker's super fund databases are jam-packed with information about super funds, which is why many funds themselves, selected other research groups and thousands of financial advisers subscribe to them.

It's also why Rainmaker each year provides information and data tables about investment performance, fees, insurance and extra benefits to dozens of magazines and newspapers around Australia that are operated by media groups including Australian Consolidated Press, Fairfax Newspaper group, News Limited and Macquarie Publishing.

### The AAA Fund Quality Assessment

↘ There is only one level of SelectingSuper Assessment Quality Ratings: AAA.

Funds either meet the standard or they do not. To achieve the AAA standard a super fund has demonstrated to SelectingSuper that it is an exceptional quality super fund.

This means the fund has passed a comprehensive range of "best practise" measures and benchmarks ranging from the organisation running the fund, to

administration, communications, investment mix and extra services.

The philosophy behind the SelectingSuper Fund Quality Assessment is the way we recognise what makes funds different. Super funds are many and varied. They offer different services, have different features, have different arrays of investment and insurance options, have different communication styles and practices, and different fee regimes. They serve different people differently.

This means that some funds may aim to provide a simple and streamlined product; some funds may aim to provide a premium service; and some funds may aim for something in between. And because different people look for different things in their super funds, funds with the most options are not necessarily the best, and funds that are the cheapest are not necessarily the best either.

Reflecting this, assessing funds is not just about finding the 'best' funds, because different people can have different specific needs, resulting in not all funds being suitable for all people.

It's also not only about 'value for money' either because to assess this SelectingSuper would have to impose their own opinions about what features, services and investment menus a member should buy from their super fund.

### Assessment criteria

↘ SelectingSuper's Fund Quality Assessments review and assess all the features separately and then integrate the outputs into a combined quality assessment rating.

The elements examined are:

- investment mix
- investment performance (net of fees, charges and tax)
- investment processes
- insurances
- extra services
- fees
- organisational strength
- administration
- communications

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### Investment mix

Members join a super fund so that by the time they retire they will have, hopefully, enough retirement savings to support them. Super funds deliver this through a mix of investment returns and by providing investment solutions. Without strong and consistent investment returns, super funds cannot deliver this fundamental promise.

The true measure of investment performance is what is delivered into a member's account each and every year — investment returns after all costs, fees and taxes have been deducted.

For example, if a fund is earning 20 per cent does it really matter that they charge you 2 per cent in fees? Would you rather pay 1 per cent in fees and only get a return of 5 per cent? The acid test is therefore returns after fees and money in your pocket.

While most members in some funds may just use a fund's default investment option, this clearly isn't true for all funds and it isn't true for all members. This is why Rainmaker also examines all the investment options and the investment managers used by the super funds to drive the other investment options as well.

And because your fund's investment returns are so important we spend a lot of time understanding each fund's investment strategy, its menu of choices, its returns credentials and which investment managers they use. Rainmaker has also pioneered research in Australia that has shown that super funds with good long term performance records usually have them for a reason.

And while we don't give AAA assessment based just on returns, we of course expect top rated funds to achieve good returns. We are sure members would as well.

The investment side of a super fund therefore has several elements. In the SelectingSuper investment assessment we review investment mix and the construction of the investment menu, we analyse the investment returns and assess the quality of the investment managers used by the super fund, and we review the investment processes and how well they are explained and justified.

**Life stage** investment options are assessed using this methodology but adjusted with an enhanced proprietary system that compares these products and their age cohorts against age and demographic specific benchmarks.

Rainmaker is of course neutral regarding whether lifestage products are appropriate but if a fund offers one it members are entitled to know its investments are effectively and efficiently properly managed.

### Insurance

Nearly all super funds now offer at least some form of insurance, be that death and TPD insurance, death-only insurance, and increasingly income protection insurance. Some funds are even starting to offer other types of insurance as well.

Insurance options offered by super funds are therefore an important factor when choosing a super fund because insurance is such a major aspect of ensuring a member's financial well-being. In fact, for many employers and members choosing a super fund, insurance is nearly as important as investment performance itself.

However, it is no longer enough to just offer insurance as the insurance must be reasonably priced and well explained. How flexible is the insurance is important too. Members come in different shapes and sizes, and so should their insurance.

### Extra services

Why wait until you retire to take advantage of your super fund? Super funds can offer so much more than just compulsory tax-effective saving. Of course, investment returns are the fundamental driver that makes your super fund successful, but members should also be able to access other services and features, such as financial planning, home loans, managed funds, retirement products, spouse accounts, education savings plans, and shopping and travel discounts.

But remember, members should never buy a super fund just because of its extra services. However, if a super fund delivers good investment returns and also delivers good extra services, then why not use the extras as much as you can?

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### Organisational strength

Organisational depth, experience and structure are fundamentally important when selecting a super fund. Are the assets held securely? Is the organisation running the super fund credible, experienced, trustworthy, and do the directors or senior management have problems with conflicts of interest? Are there appropriate checks and balances in place? How experienced are the directors and their management? Who are the service providers?

### Administration

Administration services and support are one of the most visible differentiators between super funds. Can employers and members rely upon their super fund to properly process their contributions? Are members' statements accurate and timely? Is the information supplied to members correct?

A super fund's administration processes, while they may not be the most glamorous aspect of a super fund, are nonetheless a very important operational aspect and can make a real difference between satisfied and dissatisfied employers and members. But administration shouldn't be overrated either. Too many funds want to spend all day telling members about how good their call centre is, when all a member might want to know is how reliable their investment returns are. It's a question of getting the balance right.

### Communications

Superannuation can be a complex product, and this makes communications crucial. How often does the fund talk to its members? Are fund documents understandable? Are all fees and charges fully explained in language that real people can understand?

And do the funds follow industry best practice and government rules and guidelines? Does the fund's website make sense? Is the fund open about how it's performing, or does it keep secrets? Can employers and members easily contact the fund? How smoothly are any problems with members handled?

### Fees and charges

SelectingSuper assesses super fund fees in several ways: first, through their after-fee returns, sometimes called crediting rates, which by definition are investment

performance returns after all fees and taxes are deducted; second, through the cost of insurance premiums; and third, in relation to the flexibility of the investment, insurance and extra services menus, including whether the fund comes bundled with access to a financial adviser.

This means SelectingSuper doesn't just simplistically rate a fund's fees as good because they are low or bad because they are high. Instead, the more important thing is what members receive for the fees they pay. In any case, funds that may seem expensive at face value can actually offer heavily discounted fee deals, thus making them surprisingly cost competitive, depending of course upon the customer and how they interact with the fund.

Conversely, funds that have low fees can have them because they are streamlined and simple. For example, a direct-sell-no-advice fund sold centrally through employers should be expected to be low cost. The real issue with fees is therefore not what they are but are they over-priced for what you get?

Because of this, it is more important for potential members to understand what a fund's fees are and to understand what they get for the fees so they can judge for themselves if the fund is worth the money. There is no point a fund having low fees if not many people can join it because it's not public offer or it only operates in a certain industry or part of the country.

SelectingSuper therefore does not assess fees directly in a fund's Quality Assessment. But because fees are embedded and reflected in many other parts of the super fund we have already assessed, research has shown us that this is a much smarter way to attack this issue.

*For more information, please contact Rainmaker or visit our websites*

### Disclaimer

SelectingSuper Fund Quality Assessments review a super fund against a combination of industry best practice benchmarks and the wider market. The Quality Assessment takes into account research and opinions using a mixture of both quantitative and qualitative assessments. The Quality Assessments are not statements of future performance and do not constitute specific investment or financial advice.

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#### Investments

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##### Menu

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Full details of investment choice menu  
PDS investment booklet

##### Performance

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Performance history of each investment option (at least 5 years where applicable)  
Details of tax and fee status of all performance figures  
Details of lifestage cohorts and age triggers where applicable

##### Process

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Details of investment processes, fund manager selections and mandates  
Use of asset consultants  
Multi manager processes and internal management

#### Product details

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##### Insurance

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Insurance types offered including death, TPD, and income protection  
Premium costs and default coverage  
Variations by age, occupation risk, gender and industry

##### Fees

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Details of fees by administration and investment  
Advice fees

#### Organisation and Services

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##### Company

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Company structure, trustee board, and senior management  
Fund compliance, regulatory licenses, and asset custody  
Service providers and outsource management  
Size of fund, members, geographic footprint  
Complaints history and resolution

##### Administration

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Administration systems and transaction processing  
Service centres and operations  
Administration and investment flexibility for members

##### Communication

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Latest Product Disclosure Statements and Annual Report  
Details of discounting arrangements  
Member/employer newsletters  
Member statements  
Seminars and education programs

##### Services

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Financial planning and advice services  
Additional services and products offered to members and employers