Gap widens between best and bottom funds

KEY POINTS

1. The gap between the best and worst performing super funds is now 36 per cent, triple its normal level.
2. The gap highlights big differences in investment strategy between super funds.
3. The analysis focuses on default options in workplace not-for-profit funds and corporate master trusts.

The global financial crisis hasn't just pushed average super fund returns to their lowest ever recorded level, the gap between the best and worst performers has tripled, highlighting the vastly different investment strategies used by super funds in Australia.

The latest SelectingSuper super fund performance tables have just been released and they show average annual performance for default investment options of workplace super funds has remained at –21 per cent, the lowest ever level recorded by SelectingSuper and its research partner, the Rainmaker group.

"But the gap between the best and worst performers has tripled to 36 per cent," said Alex Dunnin, Rainmaker's director of research.

"The top performing fund earned 4 per cent during 2008 compared to the bottom placed funds which lost 32 per cent. This 36 percentage point gap is nearly the twice the 19.9 percentage point gap that existed as recently as June last year."

Dunnin said, "Between 2004 and 2007 the gaps between the best and worst performers ranged from 12 to 17 percentage points, showing that the current gap is triple the normal level."

The gap increasing to almost 40 per cent shows how the investment strategies of some super funds are being hit much harder by the global financial crisis than are others, said Dunnin.

"The growing gap puts a spotlight on investment strategy, particular a super fund's attitude to how diversified their investments should be, whether before the crisis they maintained high weightings to equities or whether they increased their exposure into unlisted assets such as direct property, infrastructure, hedge funds and private equity."

Dunnin said this analysis focuses on default investment choices used by around 90 per cent of members in not-for-profit super funds and 70 per cent of members in corporate master trusts. The default investment strategy is used by members who either don't make an active investment choice or who elect to leave it to the fund's trustees to decide how their money should be invested over the long term.

However the gap between the top and worst performers over three years is only 13 per cent, showing that the extreme volatility we are seeing now is only a short term phenomenon. But it highlights that some funds will have much greater amounts of lost performance to get back than other when the inevitable recovery kicks in.

Dunnin said the analysis confirms how super fund members should continue to put most of their focus on investment strategy and long term sustainable returns, rather than just focusing on fees or what type of fund you are a member of.

"There is no point in being in the cheapest super fund if your returns are low. The gap between returns from the best and worst performing funds is now twenty times what you'll pay in fees," said Dunnin.

The SelectingSuper Dec-2008 super fund tables are available at www.selectingsuper.com.au and follow the link to the Top Funds lists.

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