

**A**re you getting the best possible outcome from your investment in employer-supported or adviser-recommended superannuation?

About 2300 large, medium and smaller superannuation funds are reporting their 2002-03 investment returns to their members at the moment, and it's likely many will be asking this question as the numbers roll in.

And if you think you're powerless to do anything about your returns, you're wrong. Investors don't have total freedom of choice in superannuation selection, but they do have options, as the following pages show.

The vast majority of funds – about 1920 – are single employer sponsored funds. About 110 are multiple-employer industry super funds, about 80 public sector funds, and about 230 public offer retail funds promoted commercially by financial institutions, many under a superannuation master trust arrangement. A master trust is another form of multiple-employer fund. Its main feature is an umbrella trust deed that allows a commercial trustee company established by a financial institution to administer and manage the super of groups of employers.

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While the public expectation for virtually all of this year has been that 2002-03 would produce mostly negative results from non-DIY superannuation, a number of members should already have been pleasantly surprised, especially those who belong to industry super funds.

The 12-month results that even the best funds have delivered have been nothing to shout about. But in a relative sense they have been very positive examples of the benefits of fundamental long-term investment strategies.

A particular strategy that has proved itself during 2002-03 has been diversification among different assets. This strategy is based on the expectation that there will always be some investments that will deliver positive results while others languish.

Helped by a disciplined and diversified approach towards investing, as well as some of the cheapest costs of managing super, there have been industry funds that have delivered positive returns to a large proportion of their members of better than 4 per cent for the year.

The average investment return for industry funds has been about 1.5 per cent, estimates Jeff Bresnahan, managing director of SuperRatings, a newly established superannuation performance measurement service that tracks more than 40 of the bigger industry funds as well as commercial funds run as master trusts.

While this may not seem much to those who recall the double-digit investment performance of just three years ago, it is a satisfactory result given the state of financial markets, especially the equity markets.

The range of results delivered by the most popular investment options chosen by members of industry funds and master trusts is highlighted in the two tables prepared and provided by SuperRatings.

By contrast, the average one-year performance of the master trust super arrangements included in the SuperRatings survey has been negative 1.5 per cent. Even these results haven't been as bad as doomsayers predicted earlier this year, given they are generally weighed down by greater fees and expenses than industry funds. Overall, the results haven't been as gloomy as many feared. They have certainly been an improvement on 2001-02, when the majority of

funds reported negative results.

An industry fund is an employer-supported super arrangement where the membership generally comprises workers of multiple employers from particular industries. Members range from tradespeople to professionals. The driving forces behind these funds – which at March 31 were part of a \$52 billion superannuation sector – include employers, industry associations and trade unions.

Industry funds are described as not-for-profit super funds because they are run on a straight after-expenses basis for the benefit of members. In this regard they are similar to single employer sponsored company funds, but with the additional promoted benefit of offering economies of scale in fund accounting, investment

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management and advisory services, regulation advisory services (known as compliance supervision costs) and insurance.

Most of these services are outsourced by the funds in competitive tenders.

Master trusts are publicly offered superannuation arrangements promoted as commercial offerings by life companies, banks and superannuation service providers. They are part of the retail super funds sector which is the largest grouping with \$175 billion worth of superannuation assets at March 31. They allow companies or individuals to have their super run under an umbrella trust deed, and also promote economies of scale expenses features.

However, the fees that master trusts charge include a profit margin for the promoter as well as the costs of marketing the funds to the public, including commissions paid to financial planners. Hence they are universally more expensive than industry funds.

The master trust sector is one in which many financial planners are involved, giving advice on fund choice and investment choices,

from which they earn fees and commissions. As a result, when you compare the performance of industry funds and master trusts that have similar investment portfolios – an apples versus apples comparison – the industry funds typically have a 1 to 2 per cent performance advantage over master trusts and retail funds, says Alex Dunnin, director of research at Sydney-based Rainmaker Information, another superannuation information and performance service provider.

Where master trusts may be able to claw back some of this disadvantage, reckons Dunnin, is if the members and the advisers who guide them learn to make better of use the huge selection of investment options that they offer.

Rainmaker has counted up the investment choices that industry funds offer and come up with an average of five options per fund across the sector. By contrast, the average for the master trust sector is about 65 options per fund.

Dunnin acknowledges that this level of choice is beyond most people on an individual basis, especially as the majority of members of industry, corporate super fund and master trust arrangements have yet to explore even the more limited choices that industry and corporate funds offer. However, once they begin to consider other choices and then go further into the master trust virtual supermarket of investment choices, a whole new superannuation investment world will open up to them. Rainmaker has identified investment choices among funds that over the medium five-year term have delivered 2 to 3 per cent better results than the best default options, although some of these default options have also done well enough to be ranked highly in terms of their performance.

The superannuation investment world is very much dominated by the default fund options offered by all super funds. But Dunnin thinks once members begin to really understand and go beyond the default options, many are likely to see new opportunities. This will depend on their fund and their personal level of investment knowledge. Many will need the help of a superannuation-experienced financial adviser to take this step of choosing a different investment mix. But the first step will be one of becoming aware that different investment options exist and then discovering what they can offer.