

Portfolio **Barrie Dunstan**

Rating the super funds

Rainmaker Information is set to launch its SelectingSuper ratings service for super funds.

When the dust settles on the 2002-03 superannuation fund returns, members and employer sponsors of funds might be tempted to take a closer look at their choices of funds.

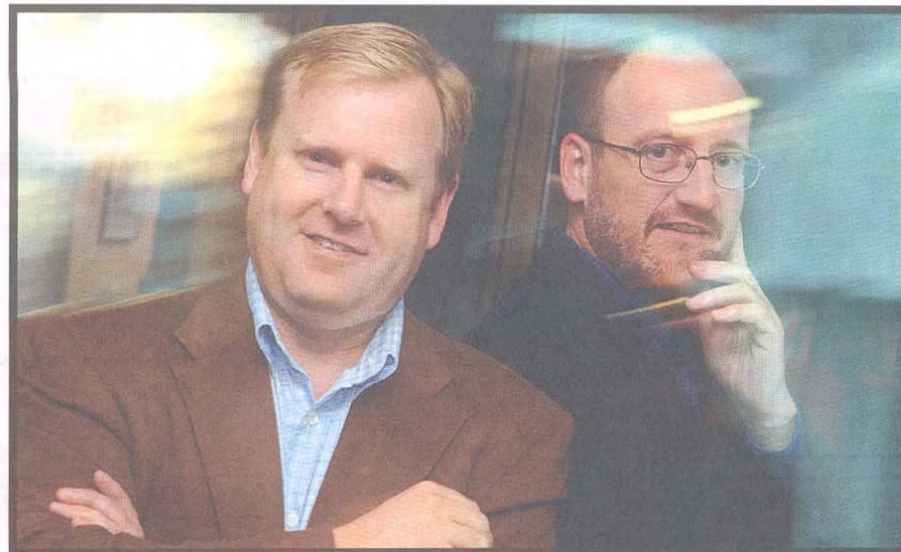
The gulf between largely negative returns from retail funds and break-even to slightly positive returns from many not-for-profit funds, might trigger some new and interesting re-assessments.

But now, if the federal government ever gets its choice of fund legislation through the Senate, the investment world will be much better organised to help both employers and employees make their choices, with the major supplier of super fund numbers, Rainmaker Information, set to launch a comprehensive rating service.

Rainmaker is launching its SelectingSuper fund ratings which aims to provide a full ratings and information service on most publicly available superfunds. For the group, which began in 1992, this is another step in its process started five years ago to provide benchmarking numbers which can be used by corporate and super fund clients to check their funds' performance.

But, says Rainmaker chairman Chris Page, the retail market wasn't ready for the full ratings approach. Now, regardless of the fate of the government's choice of fund legislation, the mood has changed.

Rainmaker's SelectingSuper ratings will be available to funds to check their product against competitors or for employers who



Setting the standard: Rainmaker's Chris Page and Alex Dunnin.

Photo: ERIN JONASSON

are thinking about possible outsourcing. Even after the big rush of companies switching mainly into master trusts, Rainmaker director Alex Dunnin says there are still some funds just shopping around.

Page says super funds don't pay Rainmaker to be assessed or rated — only if they subsequently want to market their ratings are they required to subscribe.

There will be four levels of ratings in the Rainmaker system: AAA (an exceptional quality fund); AA (a very good quality fund) A (a good quality fund) and B (a below standard quality fund). Funds which do not provide sufficient information for a rating will have a "not rated" status. The ratings will cover master trusts (both corporate and personal), industry funds, corporate funds and government sector funds.

Like corporate ratings or existing fund manager ratings, they will be responsive to any changes in the funds and will cover a wide range of aspects — the fund's organisation strength, its administration, communications, its investment performance, the insurance product

offered and any extra benefits.

The final step in the Rainmaker process is likely to be publicly available ratings and investment performance comparisons. This is probably a few months away. But, as the recent competing service by Jeff Bresnahan's SuperRatings has shown with a limited range of large public offer funds, there is likely to be growing retail investor interest in

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such an obvious extension of the SelectingSuper ratings approach.

Page says investors join a superfund to amass retirement savings and, without strong and consistent investment returns, super funds can't deliver on their fundamental promise. Rainmaker's measure will concentrate on returns after all costs, fees and taxes have been deducted. He says SelectingSuper also will focus on

insurance, which is an important aspect in ensuring members' financial well-being.

But the ratings system will also look at the role of super funds as investment managers. Most trustees of large funds are, in effect, running multi-manager funds, selecting individual managers to invest in various asset classes. This means they are attempting to add value in the same way as any other investment manager. Page says SelectingSuper will look at how well trustees can articulate their investment process.

Eventually, this may be of some interest to investors, since there have been many who are using master trusts with a wide range of retail investment choices. Dunnin says that two years ago, the average number of investment choices in master trusts was around 35 options. Now, it is up to an average of 65.

With all the investment choices available at the retail level, investors may have to determine whether such a range of 50 or more investment choices is useful or confusing. When more detailed

ratings are available to the public, members may be able to compare their individual performance of choosing their own mix with what other trustees have achieved in the much more limited number of pre-mixed options they offer in the big funds.

It is becoming clear that there is a two-tiered structure of investment returns emerging: many of the industry funds, large corporate funds and public offer funds have managed to achieve modest positive 2002-03 returns for many millions of members, either through better investment choices or because of lower fees.

But, based on the pooled fund survey numbers from Mercer and InTech, it is clear that all but a few of the retail-based products marketed by Australian's major investment managers will have produced losses for the second successive year (and the third year for some unhappy investors). For many retail investors, their individual results may depend on their own asset mix and manager selection, taken in conjunction with financial advisers.

So, if the the government's laudable intention of legislating for people to choose to move from a poorly performing fund to a better one are to become reality, we could yet see people moving from the retail funds to the better performing and cheaper not-for-profit funds. If this happens, it might be a result opposite to the government's original thinking when it framed the legislation.

Whatever the fate (or the timetable) of choice of fund, it seems likely that the market may well be relatively well organised to provide consumers with ratings and comparisons even though the legislative-backed disclosure regime for consumers is still a work in progress.