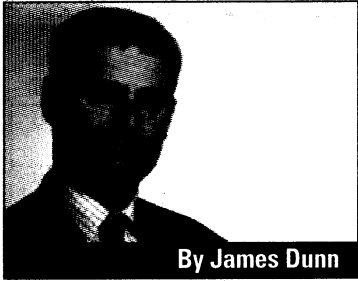


Super choice debate lags existing industry options



By James Dunn

In all the debate about super choice, it is important to recognise that the government proposals represent the formalisation of choice that already exists. Effectively super members have choice on three levels: choice of investment strategy, choice of fund manager, and choice of actual super fund.

Accumulation funds are already able to offer investment choice – that is, a range of investment options. A few years ago there was the one balanced option, now there is choice aplenty. At present, of course, the fund usually chooses the managers. Let's call this level one choice.

If super investors respond to the marketing blandishments of fund managers and decide they want their money to go to a particular fund, they can invest in a master fund that has this item on the

menu. This will become more common, as a function of both the ever-more pervasive influence of the US-style star manager system and the surge in the number of boutique managers.

In this environment, competitive pressures are forcing many funds with even this limited choice to start to think about offering a choice of fund manager. Most master trusts and even a few industry funds already let members choose which fund managers they want to run their money. Let's call this level two choice.

Legislation is in place for levels one and two choice described above. The debate is long over. As for level three choice – the ability to choose which super fund a member uses – the debate goes on over whether and how it should be imposed upon the Australian workforce. However, it is already happening.

While politicians think the ball is in their court, as usual, the industry, business and consumers are getting on with it despite them. You could get no better example than the Federal Opposition making a big song and dance about banning entry and exit fees. Meanwhile, in the corporate

supermarket, they're already on the way out because they don't make any sense. Companies just won't accept these fees.

Where there are high exit fees – for example, in some life company products – these products are no longer sold, because the market has regulated itself, as it often does. This is not a plea for the super industry to be left to run its own show, merely the reality of a competitive market.

Performance gap to close?

If the market turns bullish in 2004 it will be interesting to see whether industry funds can be reeled in by the retail master trusts.

Industry funds, with their leaner structure, have generally outperformed the master trusts among diversified options in a difficult market. Their natural defensiveness – they are more heavily weighted to direct property, and alternative assets (e.g. private equity) – has helped them, and so their balanced options have performed better over the last couple of years than the master trusts' balanced options.

Master trusts say this comparison is unfair and the

market has suited trustees of not-for-profit funds, who are much more activist with their asset allocation than master trusts. Master trusts say they are also hamstrung by asset allocation – having to operate more in line with benchmark portfolios.

Most of the outperformance generated by the industry funds has come from asset allocation, but if the share market starts to run, will retail master trusts close the performance gap? In a bullish market, they are likely to have more, and better performing, equity choices than the industry funds who spread their investments across a stable of managers.

Marvellous Melbourne

It seems that like Mark Twain, Melbourne has had its epitaph – financially speaking – written too soon. Melbourne long ago surrendered the title of Australia's financial capital to Sydney, although passionate Mexicans occasionally like to run the numbers on the market capitalisation of the companies that call Melbourne home compared to Sydney. They will even count Rio Tinto and BHP Billiton, both of which maintain a

postbox in the 3000 post code, to prove their point.

But it seems that in institutional super funds, the Yarrasiders may be on the money. Rainmaker's 2003-2004 Mandate Pipeline Analysis report, which covers \$204 billion in 3,100 investment mandates awarded by 270 super funds through 22 asset consultants, finds that while the fund managers may be based in Sydney, the mandates come from Melbourne, where the dominant share of institutional super funds are based.

Perhaps the compromise is that the financial services capital therefore moves to Beechworth, so we can all live in Yackandandah, get some llamas, and be only a 90 minute drive from skiing while being 40 minutes drive from Rutherglen.

It will never happen. And it's a good thing, too. Think of all those Qantas Club staff whose jobs depend on the mandate mating game.

James Dunn is a regular finance commentator on Australian radio and television. He was the founding editor of Shares magazine and is a contributor in The Australian and the Sunday Mail.