

# What in the word do they mean?



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Buyer beware

## Clear language is a must for comparing funds' results

**I**NVESTMENT performance figures from superannuation funds should start appearing in members' letterboxes around the country in a few weeks. Thanks mostly to a stellar performance from Australian and international shares in the past 12 months, the returns of most funds should be double-digit for the first time in four years.

According to Intech, the median return for growth-oriented super funds for 2003-04 should be about 13.8 per cent after tax and investment and ongoing fees — or 11.1 per cent after inflation. This compares with a return of about 18 per cent from Australian shares and 19 per cent from international shares.

Unfortunately for most super fund members, knowing what your fund returned to you after fees and charges won't be easy to gauge.

This is because nowhere in this supposed era of almost full disclosure and clear and concise language in financial documents is there a standard definition of what "performance" and "investment return" means for different fund types.

Part of understanding how much money your fund earned you in the past year has to be knowing whether other funds have done as well. But since investment performance may also be called investment return, and may or may not include investment charges and fees, it is extremely difficult for people to tell how well their fund has done.

Rainmaker Information has had a go at distinguishing between super fund earnings, which basically come in various shapes and sizes depending on the type of super fund you are a member of and what type of fee and tax structure it has.

Corporate, government and industry funds usually talk about investment performance in terms of earnings or crediting rate.

The earnings rate is the investment performance earned by the super fund's fund managers. The crediting rate is the investment return actually deposited into members' accounts, that is, the interest each

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member receives each year after all fees and taxes have been paid.

According to Rainmaker, the difference between what the fund earns and what the fund pays into members' accounts is crucial to understanding how a super fund operates. The crediting rate matters because it is what you get in your account. The earnings rate tells you how well your fund picks the managers to manage your money. It is out of this rate that they pay the taxes and other costs of running the fund.

Retail funds or master trusts don't usually talk in terms of earnings and crediting rates, but rather in terms of investment returns.

For some trusts "investment returns" means after all fees and taxes have been deducted, leaving the amount actually returned to investors. In other words, it's a de facto crediting rate except they call it something different.

In theory, just knowing they call it investment return should make it easy to compare master trusts, except that most of them have tiered fee structures.

Typically the more money a person has invested, the less they pay in fees.

A person with less than \$50,000 in their super account might pay 2 per cent in fees, whereas someone with more than \$50,000 might pay reduced fees of 1.3 per cent.

So two people in the same fund may be paying different fee levels, which ultimately translates into different investment returns.

This can make it extremely difficult to compare master trusts' returns with the returns of other funds.

A member really needs to know whether the investment return that is publicly declared is before or after taking into account tiered fees.

Many super fund members will look at the performance tables produced in newspapers, etc. and see that their fund returned, say, 10 per cent, but wonder why their statement reports a return of 6.5 per cent.

Depending on the fund type, the headline performance could be before the investment fees paid to fund managers and before other operating costs and taxes such as ongoing management fees, administration costs, etc.

BT Lifetime Master Trust generally reports its performance after investment returns but not before ongoing fees.

AMP generally describes performance after investment returns and ongoing fees.

Industry funds like Cebus and Australian Retirement Fund also talk about returns after investment and ongoing fees.

The super industry and Treasury have put considerable effort into making sure that from January 1 next year funds disclose their fees and charges to make it possible for people to compare funds.

But no one has addressed the issue of the different descriptions or interpretations given by funds as to what performance or return actually means.

The industry's next move should be to standardise what is meant by performance, so consumers can easily judge how one fund is performing against another as well as against other asset classes.