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It's not just investment returns - the best all-rounders win the top ratings

Chant West has released its 2011 fund ratings which show two new entrants in both the Top 10 super and pension funds. All of the Top 10 funds delivered solid short- and long-term returns, but also demonstrated the across-the-board strengths necessary to qualify for the highest ratings.

"Multi-manager investments account for 40% of our overall rating but we don't rate funds on short-term returns," says Chant West principal, Warren Chant. "In assessing a fund's investments, we focus on the quality of its investment governance, its in-house investment team and asset consultant, and the structure of its investment portfolios. If it gets all of that right, it is likely to have strong long-term performance. And this is exactly what we have seen with our Top 10 super and pension funds, where the average return over the past seven years (to September) was 4.3% per annum above inflation – that's a very healthy real return."

While investments are obviously important, a clear trend over the past year was for funds to improve their all-round offer to their members. We saw improvements in insurance offerings, lower investment fees and an up lift in member services, particularly in communications and education.

"To be a Top 10 rated fund, it must be strong in all of the key areas we assess – organisational strengths, investments, fees, insurance (for super members), administration and member services. It's the total package funds offer that results in them scoring highly," Chant says.

The Top 10 personal super products are listed alphabetically in [Table 1](#). There are two new entrants this year – GESB Super and QSuper – meaning that the list now comprises not-for-profit funds exclusively. The table shows, for each fund, its fees (management costs) for a \$50,000 account balance, its returns over seven years to September 2010, and compares these with the median of all funds in our universe.

Table 1: Top 10 Rated Personal Super Funds (listed alphabetically)

Fund	Fees (% pa)	7 Year Returns (% pa)
AustralianSuper	0.83	7.3
CareSuper	1.30	7.1
First State Super	0.38	6.6
GESB	0.79	6.9*
HOSTPLUS	0.88	6.9
NGS Super	1.15	7.3
QSuper	0.66	7.5
REST	0.87	7.3
Sunsuper	0.79	6.6
UniSuper	0.77	7.3
Median	1.32	6.4

* GESB's main super fund, West State Super, is a tax exempt fund so the return shown above is before tax.

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“The fees column in the table shows that you don’t necessarily have to have low fees to achieve the highest rating,” Chant says. “Fees are just one part of the picture, and we think it’s important that funds devote resources to areas such as education and communication rather than just reduce fees to a minimum. That’s the only way that members are going to understand their super, make the most of it and end up with the best retirement income.”

Chant also notes that not all funds disclose fees in the same way or to the same extent. “For example, CareSuper may look more expensive than the others in the table, but that’s partly because it does disclose its fees fully, including all of the underlying manager fees. Not all funds do this and so appear a little cheaper than they really are.

Pension members have different demands

In the pension category, the two funds joining the Top 10 are AUSCOAL and QSuper. The Top 10 listing is shown in Table 2, which again shows how those funds’ fees and performance compare with the median. In this case, fees are shown for a \$250,000 account balance, which is more representative of pension members, and returns are for three years to the end of September 2010, as most funds do not have performance track records for longer periods.

Table 2: Top 10 Rated Pension Funds (listed alphabetically)		
Fund	Fees (% pa)	3 Year Returns (% pa)
AUSCOAL	0.62	-1.9
AustralianSuper	0.84	n.a.
CFS FirstChoice Wholesale	1.00	-4.5
First State Super	0.48	-2.7
NGS Super	1.05	-1.7
QSuper	0.66	-0.9
REST	0.80	-0.4
Russell Private Active Pension	1.05	-3.6
Sunsuper	0.86	-2.2
UniSuper	0.88	-1.6
Median	1.22	-3.6

Chant points out that, while there is some overlap between the super and pension Top 10s, there are funds in the latter category that have made a special effort to cater for the different demands of pension members.

“Generally, pension members require a higher degree of servicing than super members. Their account balances are higher, their interest level is greater and they ask more questions. A lot of funds don’t give them any special attention but, those that do, can receive a higher rating. So in the Top 10 pension funds we see two commercial master trusts, Colonial First State and Russell, rated equally with the top industry funds.”

Not-for-profit funds come out tops on investment

Looking purely at investments, Equisuper, Health Super and QSuper come into our Top 10 for 2011. The list in Table 3 shows our high regard for the quality of the investment offerings of industry funds generally. Their strong cash flows allow them to take a long-term view, which typically means they have meaningful investments in unlisted and alternative assets. This gives them additional sources of return, as well as diversification benefits when combined with traditional shares, property and bonds. While they have higher investment fees, they have consistently delivered higher net returns to members.

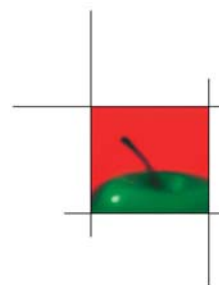


Table 3 shows the funds' default option returns for one, three and seven years as well as their standard deviations (risk) over seven years.

Table 3: Top 10 Rated Funds for Investment (listed alphabetically) & Returns (% pa)				
Fund	1 Year	3 Years	7 Years	Std Dev
AustralianSuper	5.8	-2.9	7.3	6.8
CareSuper	5.5	-1.3	7.1	6.0
Equipsuper	4.3	-1.3	7.0	6.4
Health Super	7.5	-0.6	7.2	6.2
HOSTPLUS	5.3	-2.9	6.9	6.1
NGS Super	5.0	-1.1	7.3	6.9
QSuper	5.5	-1.1	7.5	7.6
REST	4.6	0.0	7.3	6.0
Sunsuper	4.1	-2.1	6.6	6.8
UniSuper	4.8	-1.5	7.3	6.5
Median	4.3	-3.0	6.4	7.3

Communication and education

When we rate funds, we include a component that assesses the quality of their member communications and education services. For the first time, we have published the top-rated funds in these areas from our PersonalSuper universe. The Top 5 for communication and education are shown in Tables 4 and 5.

Table 4: Top 5 Rated Funds for Member Communications (listed alphabetically)	
Fund	Highlights
ASSET	Frequent use of member-focussed case studies in PDS & newsletter
AustralianSuper	Comprehensive & consistent member education focus in PDS & newsletter
HESTA	Consistently clear and well-presented communications
NGS Super	Age-segmented newsletter & tailored communications with achievable calls to action
Sunsuper	Engaging PDS and age-segmented newsletter, statement includes tailored messages

Table 5: Top 5 Rated Funds for Member Education (listed alphabetically)	
Fund	Highlights
AustralianSuper	Comprehensive education, high quality interactive Retirement Income Calculator
CareSuper	Engaging lifestyle-based online seminars
NGS Super	Interactive & fun 'NGS College' website, includes online seminars
Sunsuper	Comprehensive range of high quality online tools/calculators & education
UniSuper	High quality calculators & online seminars

Three funds feature in the top five for both communications and education (and in the Top 10 overall) – AustralianSuper, NGS Super and Sunsuper.

Chant says: "Good communications is vital if members are going to engage with their super, understand how it works and how to make the most of it. We look at materials such as member kits, newsletters and statements and assess their presentation (are they engaging and clear?), usefulness (do they help the member make key decisions?) and practicality (do they include worked examples, case studies and clear calls to action?). Also, does the fund tailor messages to particular member segments and individual member circumstances?"

"When we assess education, we're looking mainly at what's available on the fund's website. Does it help members understand and weigh up strategies such as co-contributions, salary sacrifice and transition to retirement? Does it include calculators covering retirement and insurance adequacy? Does the fund provide webinars (online seminars) which talk members through general superannuation and retirement issues? We also assess how well a fund uses pro-active campaigns and seminars to educate members and drive positive behaviour.

"There are some stand-out performers in communications and education. For example, Russell continues to lead the way in producing annual statements which are clear, engaging and personalised. Sunsuper's OnTrack program, and in particular its excellent Statement of Advice, has set the benchmark for communicating the impact of different superannuation strategies. I'd also single out NGS Super's NGS College which is a creative breath of fresh air, allowing members to explore superannuation options through an interactive, engaging and fun website."

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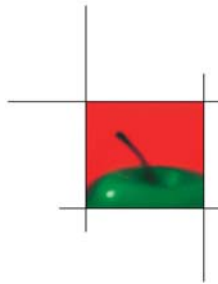
About Chant West



Chant West Director, Warren Chant, is available for an interview. Please call Warren or Joanne Putnins on (02) 9361 1400 to arrange a time.

Warren is an expert in the industry with over 30 years' experience, and regularly provides commentary on issues surrounding superannuation.

We publish a monthly superannuation fund performance survey and a quarterly pension performance survey. Returns for investment options in the Growth and Conservative categories are published on our website at www.chantwest.com.au.



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