

FEAL — Fund Executive Forum

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Agenda

1. The question of scale and how to measure it
2. Scale and its impact on strategic decision-making
3. The current state of the industry
 - Key industry metrics
 - Operating costs
 - Fees
4. Scale – the three camps of funds
5. How should funds be spending to maximise their strategic positioning?



**Scale — how
do you
measure it?**

Superannuation fund scale

- We believe that fund scale is effectively a test of whether a fund can continue to invest in developing products and services for members
- We also believe there are a number of key metrics that define a fund's scale:
 - Membership growth/loss
 - Net outflow ratio
 - “Net Benefit to Member”
 - Fees
 - Operating costs:
 - Per member
 - Per active member
 - Percentage of assets
 - What is it not?

Scale and strategic decision making

- Whilst each super fund's strategy will be different, SuperRatings continues to believe that a fund's scale will have a significant impact on the way in which funds can determine and implement their strategy
- The key area in which this occurs is a fund's management of its operating expenses and the ability to continue to invest
- With most funds continuing to maintain limited budgets, funds must determine the expenditure that provides best 'bang for buck':
 - For those with challenging metrics, this may be just regulatory/compliance;
 - Many will have sufficient scale to invest in member centric engagement;
 - Some can invest in internalisation of member touch points; but
 - Very few will be able to afford broad advertising campaigns.

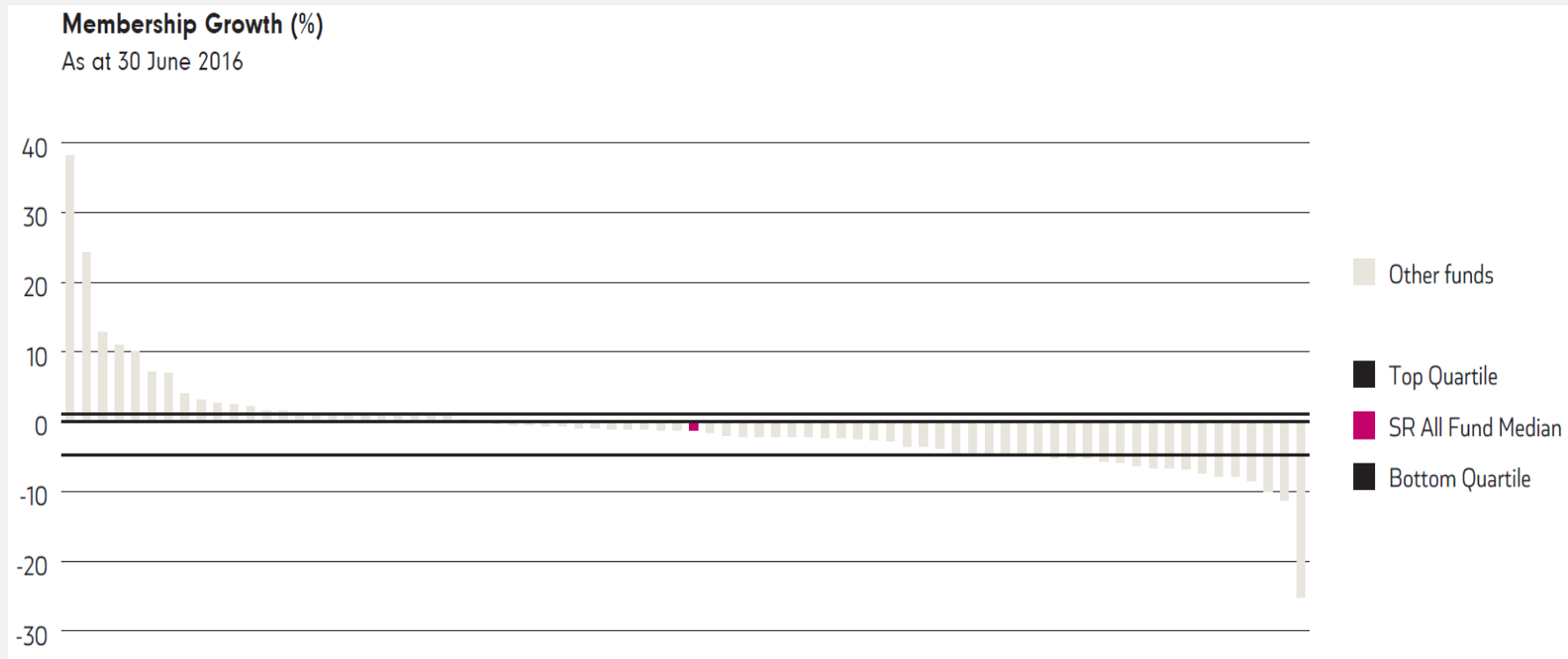
A wooden puzzle piece structure is shown on a wooden surface. The structure consists of several interlocking pieces in various shades of orange, brown, and light wood. On the right side, there is a large orange rectangle containing white text.

**Fund metrics -
the current
state of the
industry**

Growth metrics – 30 June 2016

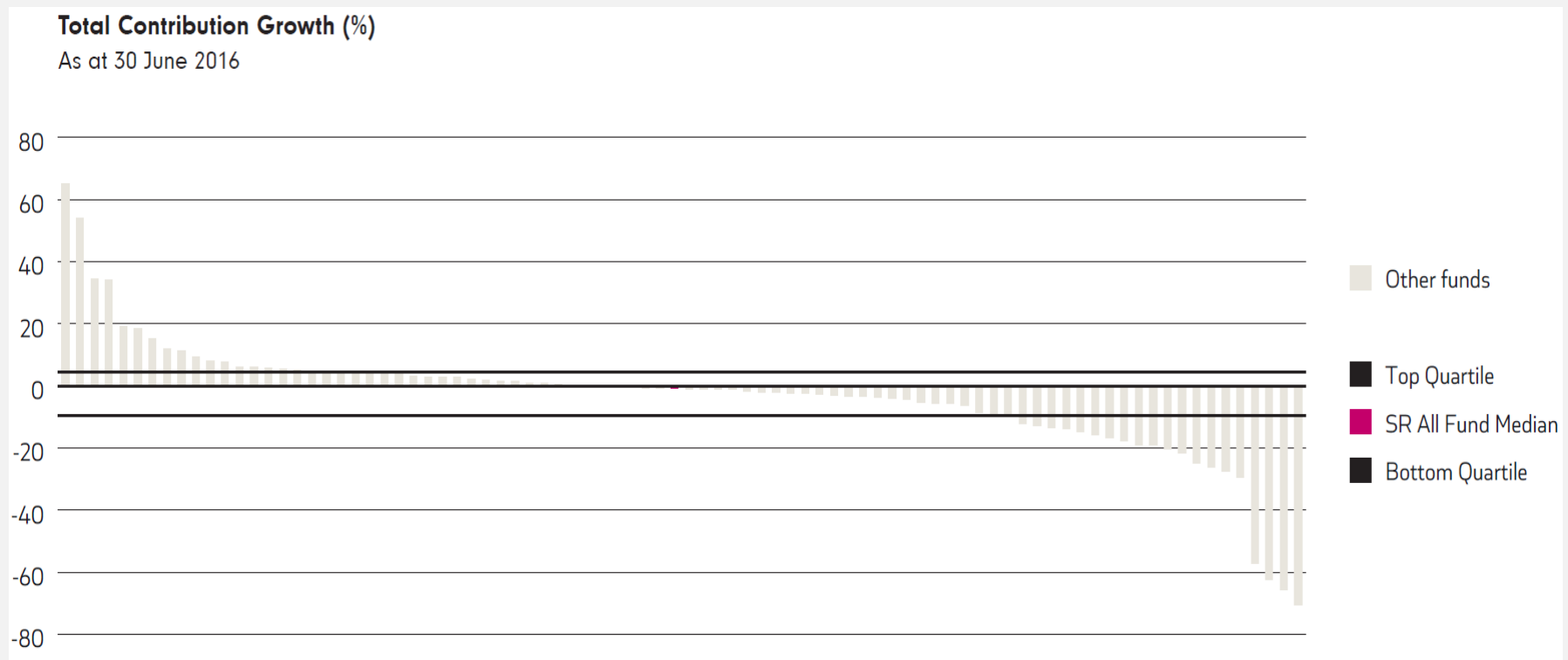
- Growth metrics have never been more challenging for the majority of the industry:
 - There remains significant divergence in the growth metrics across the industry
 - Membership continues to decline across the industry
 - Contribution growth remains anaemic for most funds
 - Benefit payments continue to grow
 - Operating costs continue to rise

Growth metrics – member growth



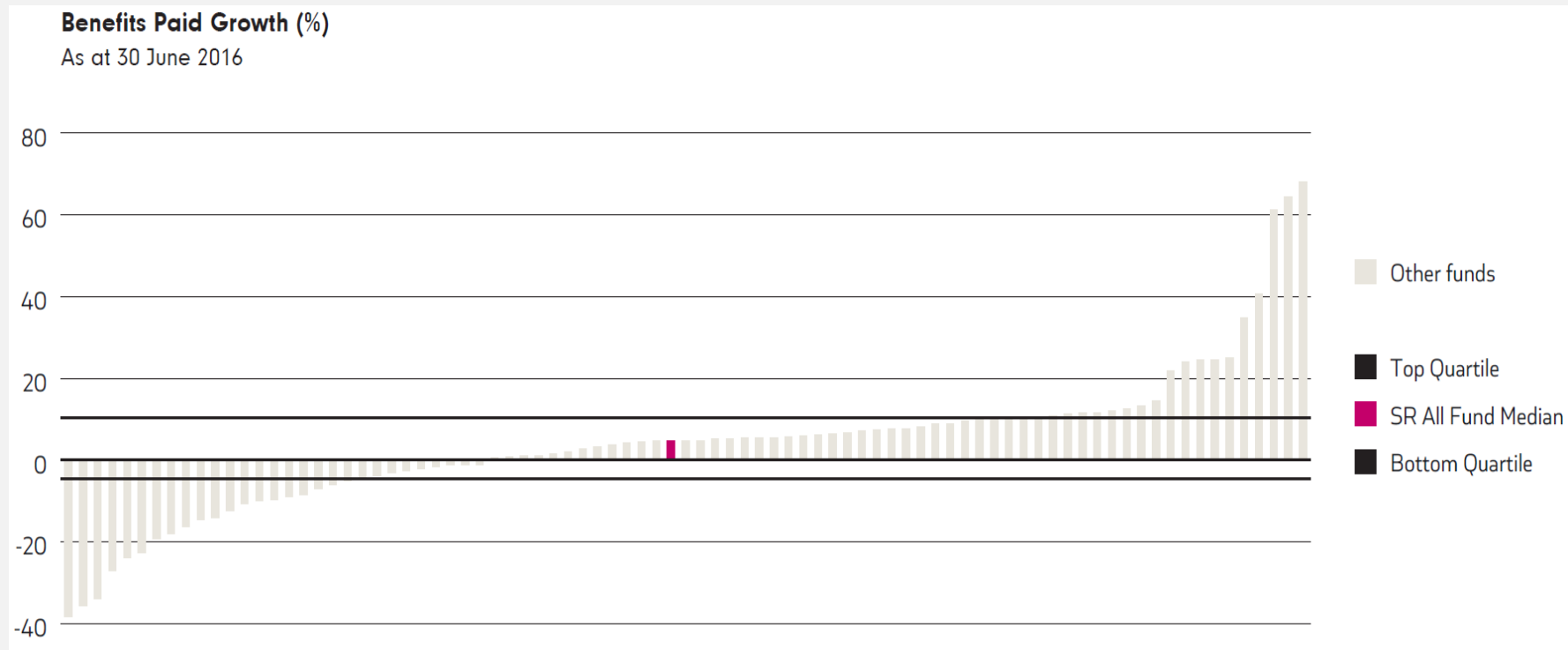
- The median fund experienced a fall in accounts of 1.25% in 2016

Growth metrics – contributions



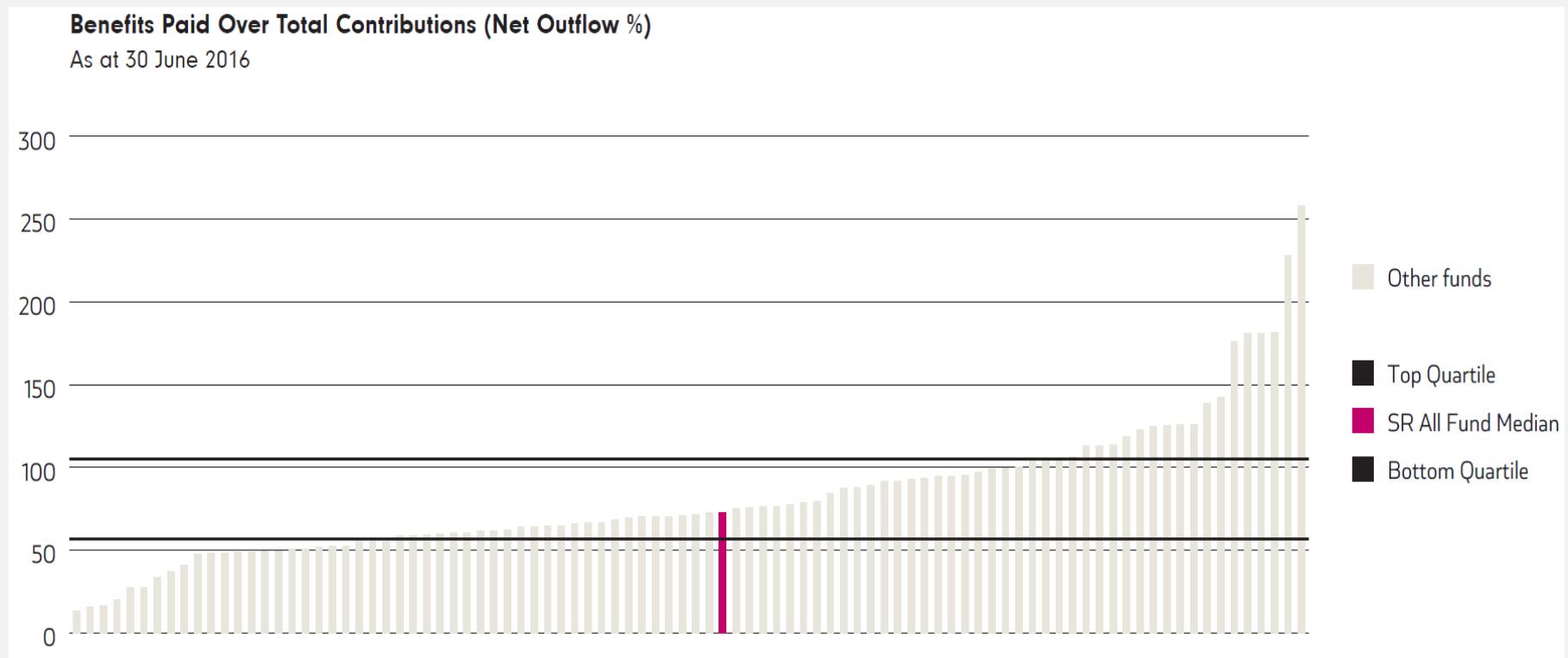
- Total contributions fell for the average fund in 2016 by 0.88%

Growth metrics – benefit payments

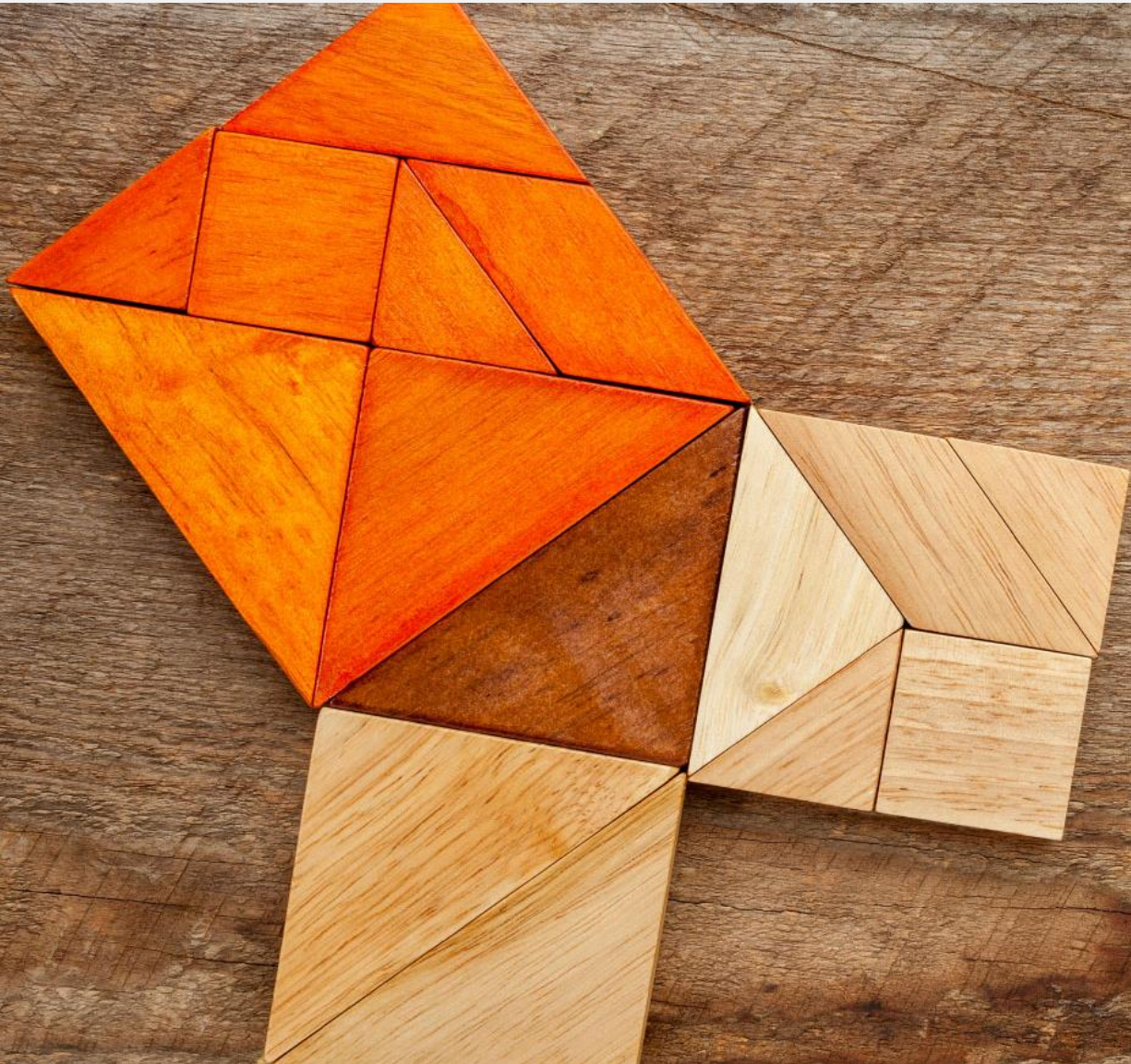


- Benefit payments for the median fund rose once again in 2016, at an average rate of 4.7%

Growth metrics – net outflows



- The median fund's net outflow ratio (total outflows as a % of total inflows) was 72.93% in 2016



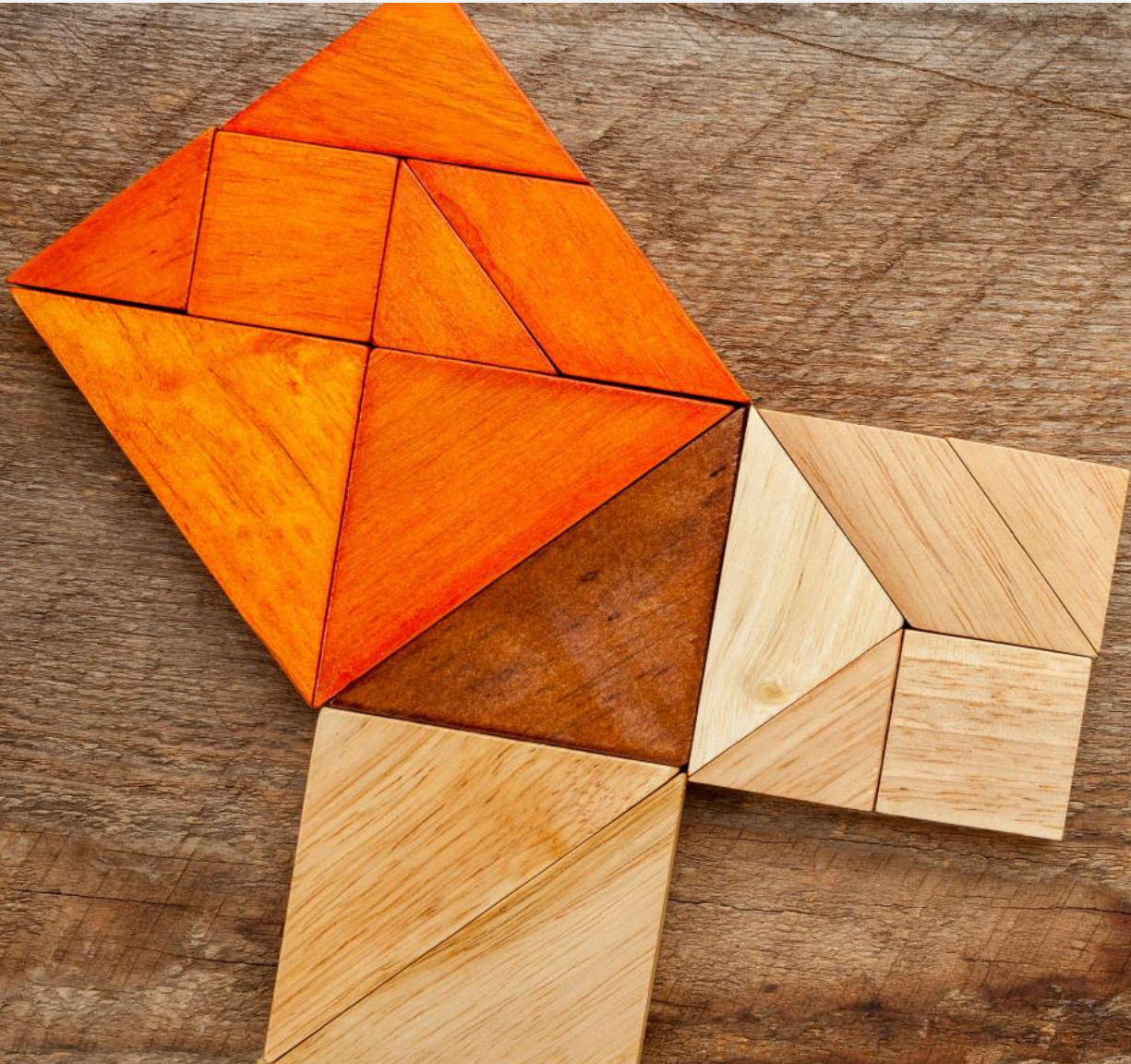
**Some
history.....**

Trends over the last 10 years

Metric (industry median)	2006	2011	2016
Member Growth	6.4%	0.7%	-1.3%
Contribution Growth	21.1%	7.5%	-0.9%
Benefit Payment Growth	32.9%	23.8%	4.7%*
Net Outflow Ratio	38.6%	52.5%	72.9%
FUM Growth	24.8%	13.5%	4.6%
Active Member Ratio	63.4%	64.2%	67.5%

*2016 was unusually low given prior year growth was 15.7%

- As is evident, the growth outlook is becoming increasingly challenging

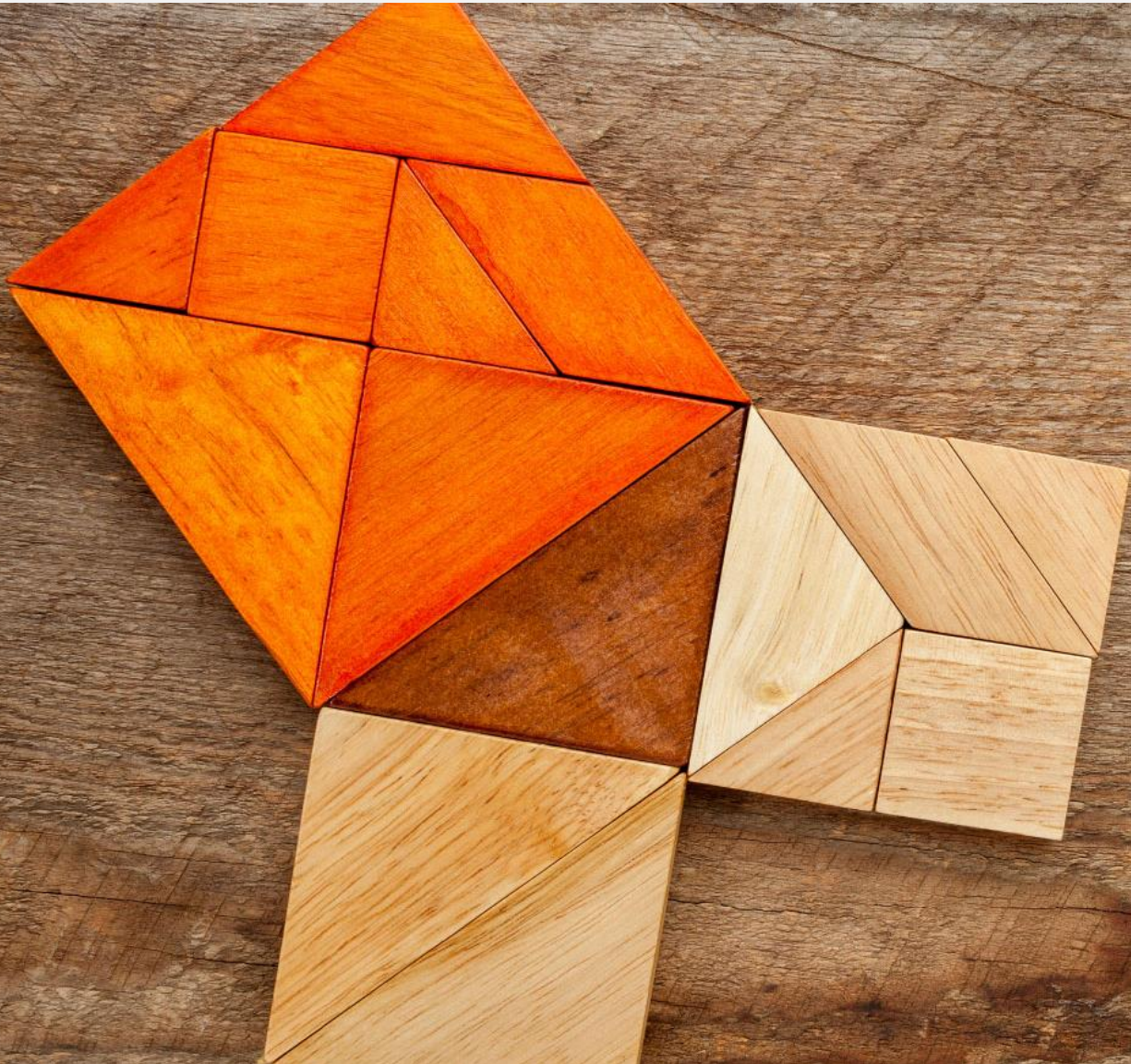


Operating costs

Operating costs

- Management of operating costs represents the key challenge for the whole industry, particularly smaller funds
- They are a measure of a fund's ability to undertake ongoing investment in products and services in an ever more competitive market
- The key metrics have moved substantially in 5 years

Metric	2011	2016
Operating Expense Growth	8.7%	5.9%
Cost Per Member	\$158	\$255
Cost Per Active Member	\$246	\$368
MER	0.59%	0.48%



Fees

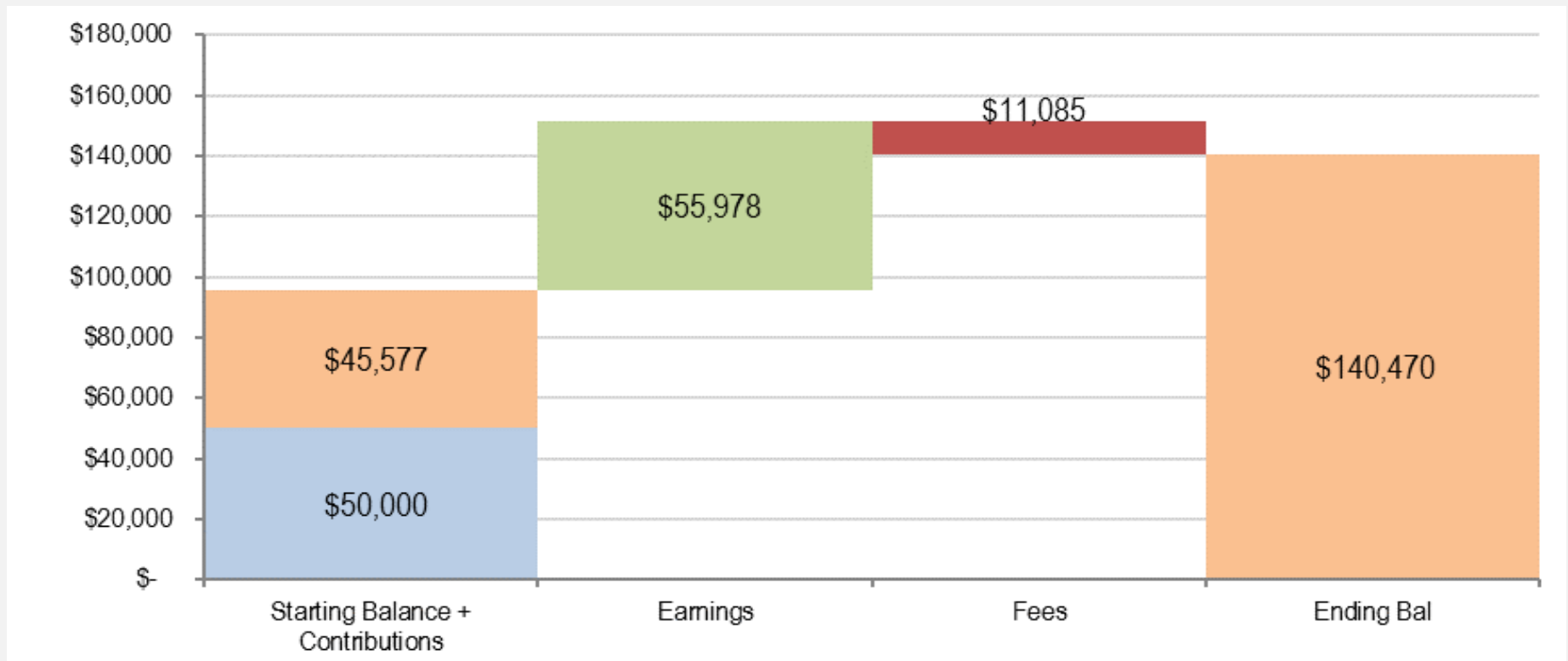
Fees

Median MySuper Fees	Member Fee	Admin Fee	Investment Fee	Fee on \$50k
Not for Profit	\$78	0.16%	0.65%	\$483
Retail Funds	\$81	0.55%	0.53%	\$589
All Funds	\$78	0.22%	0.67%	\$513

- MySuper fees continued to fall in 2016, with the NFP average falling below \$500 for the first time
- The average fee has fallen from \$726 to \$513 since 2011
- There is little correlation between 'Fees' and 'Value'

Net Benefit to Member

- Models the actual experience of a member over a 10-year period based upon each fund's actual fees and actual investment performance





Scale — the three camps of funds

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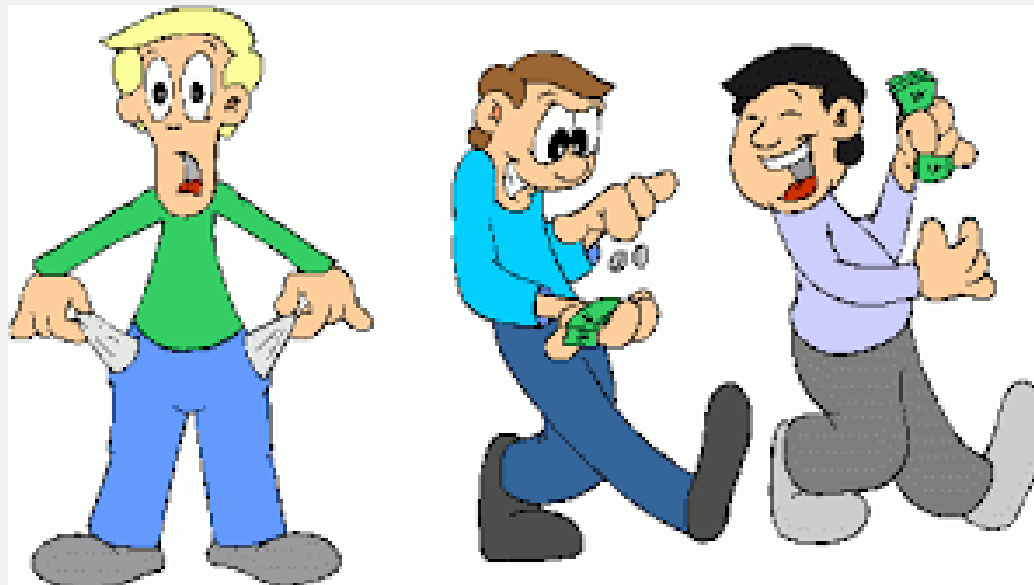
- Based upon our scale assessment, there are effectively 3 types of funds:
 - Those funds that sit ahead in terms of each metric – 9% of funds
 - Those funds that are ahead on the majority of metrics but behind on others – 68% of funds
 - Those funds that are behind on the majority of metrics – 23% of funds

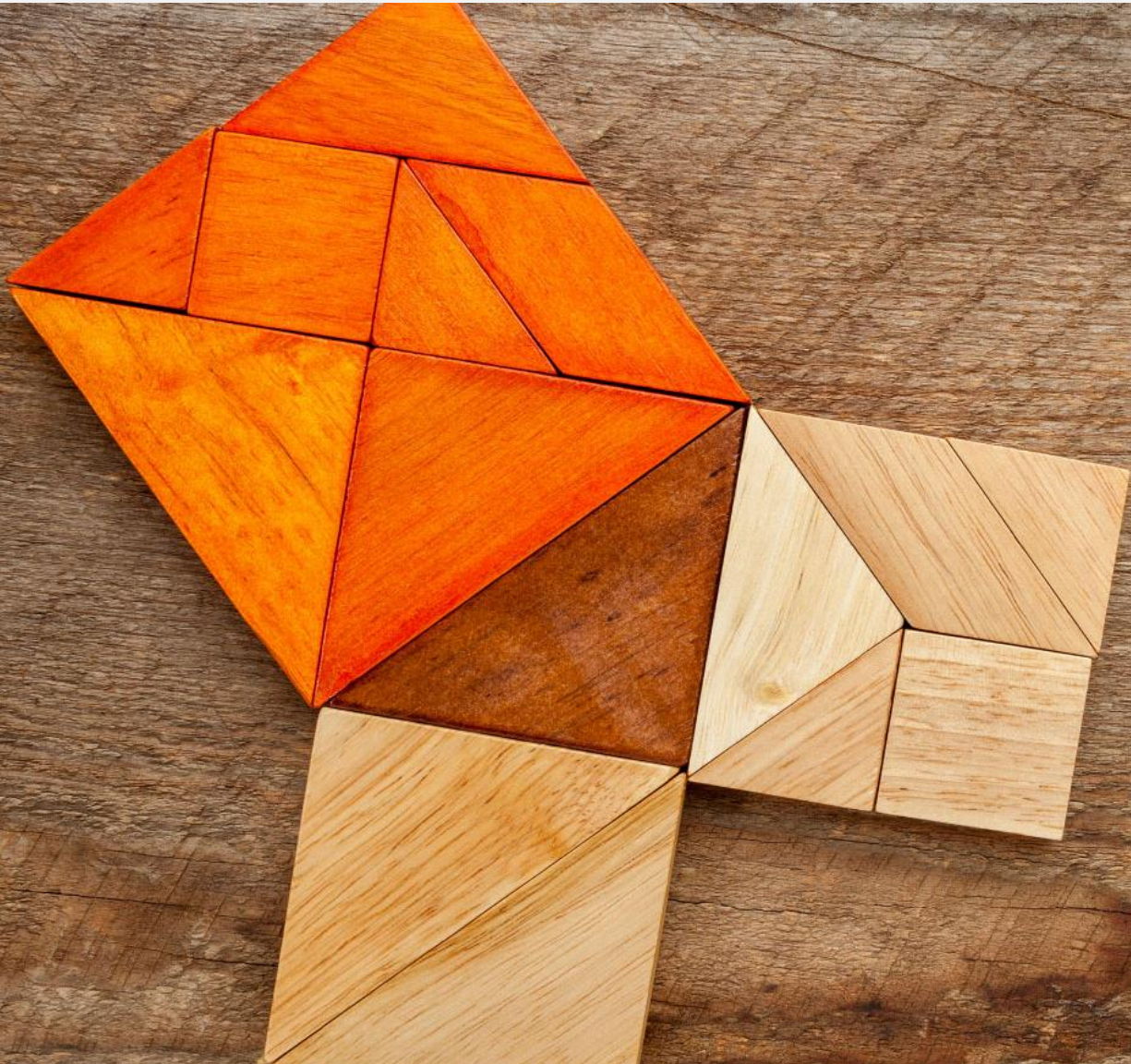


Scale and the impact on expenditures

Operating costs the key to scale?

- Whilst all metrics remain important, we take the view that operating costs are the key test of a fund's scale, given they represent the ability of a fund to continue to invest in their products and services
- A fund with sufficient scale can readily do this, without having to increase fees, whilst funds without scale struggle





**How do the
different
camps of
funds spend?**

The 9%

- Broad advertising campaigns to build brand and attract new members
- Internalisation of a range of functions – investment, member touch points
- Development of digital capabilities, incorporating online tools
- Engagement tools incorporating a range of member education, mobile applications and other tools
- Employer engagement and business development opportunities, often nothing to do with superannuation
- Advice capabilities, including phone based, face-to-face and online advice tools

The 23%

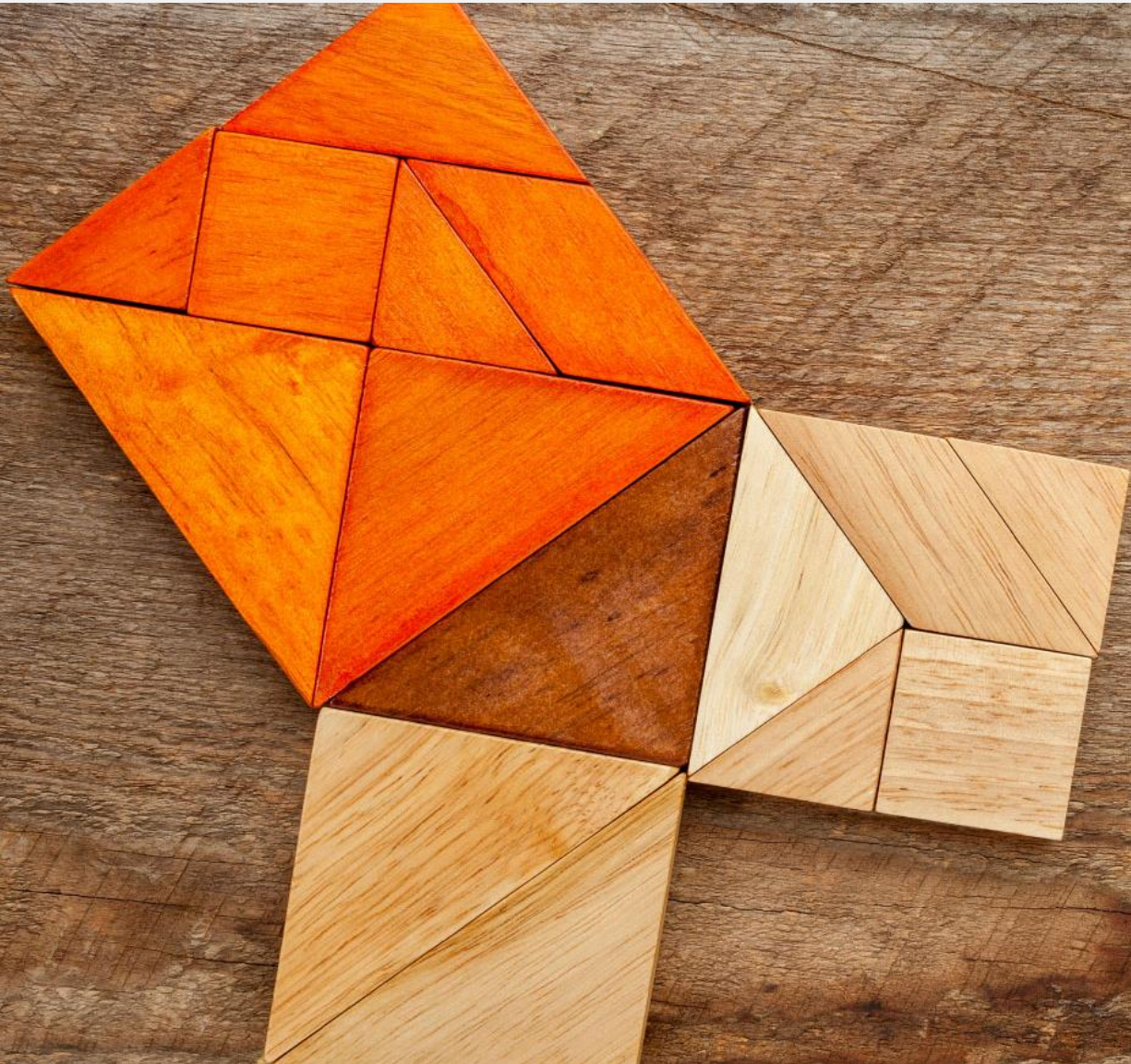
- Many almost completely reliant on a range of external service providers to assist with managing key costs and developing products/services
- Reasonable portion of operating costs spent on keeping up with legislative, compliance and risk requirements
- Little to no spend on advertising other than potentially aligned organisations
- Almost no budget allowing for proprietary development of tools or services
- Given the inability to spend, ongoing viability remains particularly challenging



**How should
funds be
spending?**

Strategy and the ability to invest

- Funds needs to focus key operational spend on areas that provide the best strategic “bang for buck” and which can drive movement on many of the metrics previously mentioned:
 - Data analytics and segmentation to drive ‘next best conversation’ outcomes, supported by outbound calling
 - Online servicing tools, tailored for a range of member needs
 - Advice capabilities, through online, telephone and face-to-face
 - Member education, through a range of online tools, educational material and seminars
 - Support of aligned associations to build brand in affiliated industries
 - Sponsoring employer servicing and engagement through regular communications and support
 - Targeted (using analytics) ancillary benefits that provide real value



Summary

Key take outs

- The industry is becoming far more competitive in terms of growth metrics and there is no longer enough of the pie to go around
- Scale is more important than just the level of FUM or the size of membership
- Diseconomies of scale also exist
- Operating costs (as well as growth, investment and fees outcomes) remain critical for funds to judge scale and capacity for ongoing strategic investment
- Strategically, funds have no choice but to invest in order to continue to improve and offer new products and services to members
- Those that cannot will be left behind, no matter how large their FUM or how broad their membership base

Thank You

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