The Fat Cat Funds Report

Super Fund Guide 2018

stockspot

Foreword

Chris Brycki
Founder at Stockspot

Stockspot's annual ***Fat Cat Funds Report*** looks at the performance of Australia's largest superannuation funds.

Stockspot first published the Fat Cat Funds Report in 2013 to bring an independent voice to superannuation. We wanted to name the funds taking advantage of Australians unwittingly paying away their retirement funds in superannuation fees.

We named it the Fat Cat Funds Report to gain attention and bring an element of humour to a traditionally dry but incredibly important topic.

Year after year we come to the same conclusion - high fees impact the long-term performance of superannuation.

This is the sixth year Stockspot has run the report and in the 2018 research we compared the largest 500 super fund options to assess how they performed after fees since 2013.

Our aim for the report is to help Australians understand the factors that matter most when they choose a super fund.

The report has rated funds based on how they have performed after fees over five years compared to funds of similar risk. Based on this we have singled out two groups of funds which we believe warrant extra attention:

Fit Cat Funds

The top 10 of their category over five years.

Fat Cat Funds

The bottom 10 funds in their category over five years.

By shining a light on both the top and bottom performers we hope to drive some change:

- Encouraging the Australian public to take notice of their superannuation and consider their options, and stop letting the Fat Cats get away with not delivering better results for their hard earned money
- Prompting funds to improve their performance; and
- Lobbying the Government to improve fairness and transparency.

The Usual Suspects

For the sixth year in a row ANZ/OnePath has topped our list with the most Fat Cat Funds. For six years we have pressured ANZ to respond by reducing the fees in these funds or move clients to better performing options. Instead we have observed that many of their poor performing funds have increased (not shrunk) in size.

This speaks to the complexity of superannuation and an absence of healthy competition; which drives the inertia of the general public who suffer most. It also highlights conflicts in distribution arrangements that enable bad actors to flourish within the Australian superannuation system.

High fees

Our research shows there is a clear correlation between high fees and long-term underperformance in super. Fat Cat Funds generally have higher fees than Fit Cat Funds.

Poor fund performance comes predominantly from active management fees as well as higher administration and operating expenses than necessary.

The impact of high fees becomes more apparent with each passing year as funds find it more and more difficult to generate sufficient returns to make up for the drag of higher fees.

High fees impact people of all ages. However, the burden becomes most apparent for those who have more years of work ahead of them. We find that many Millennials paying 1.5% per year or more in super fund fees are likely to lose over $200,000 in their lifetime due to unnecessarily high fees - that's the equivalent of the latest Tesla Model X! Ask anyone if they'd rather pay fees to a super fund or have a Tesla parked in their driveway and we're sure you'd get the same resounding response.

Ineffective actions by Government

The 2013 Future of Financial Advice (FoFA) has failed the many Australians' whose life savings remain trapped in funds that consistently underperform their peers and other benchmarks due to higher than necessary fees. Grandfathering of adviser commissions helped many poor performing funds to survive.

The MySuper reforms do not appear to have had a material impact on reducing fees either. The opposing interests of fund members and those institutions who act on their behalf appears at least in part to blame.

Our findings shows that super funds are only reducing fees very slowly (if at all). The evidence clearly shows super funds could improve performance of their investment options by reducing the fees they charge members.

Active approach harms returns

This year we decided to look more closely at actual superannuation fund performance and compare it with an index fund of equivalent risk (after fees and taxes).

Over five years we found only 4% of balanced funds beat an index fund with similar risk. Across all risk categories only 13% of funds outperform the indexed option.

This mirrors findings in other markets including the UK, where actively managed mixed-asset funds have been unable to match low-cost indexed options.

People in default super funds would benefit greatly if all money simply went into a low-cost index fund.

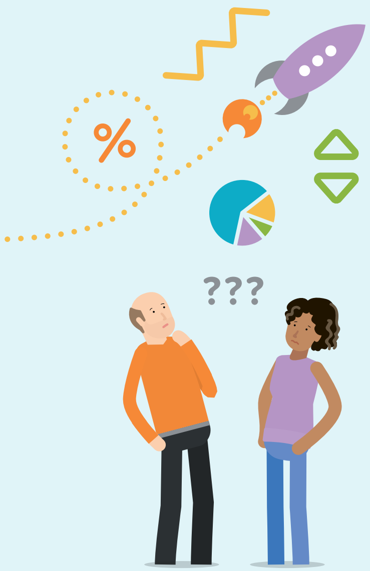
[1] Finalytic, The Multi-Asset Fund Guide

Making changes to earn fees, not help Aussies

Another important issue is that consultants to superannuation funds want to earn recurring fees. They have a vested interest to appear to be 'active' in making adjustments to their recommendations from year to year. Almost invariably, assuming funds have the right long-term asset allocation in place, the best course of action is no action - to do nothing and to leave their fund as-is.

Trustees of retail, corporate and industry super funds need to acknowledge the empirical evidence that consultants cannot identify winning fund managers in advance. Authors Herman Brodie and Klaus Harnack recently examined the research on pension plans globally which they published in The Trust Mandate. They found that the recommendations of consultants:

- Add no value; the funds that are hired underperform the funds they replace over subsequent periods.
- Are positively correlated with higher fees. Consultants have an interest in recommending complex (expensive) products because they require greater (costlier) due diligence and monitoring by the consultant.



What Australians should look for

Our six years of comparing super fund performance and fees suggests that Australians should be focused on just two simple factors when selecting a super fund for the best chance of success:

Step 1: Find the right type of fund based on your capacity to take risk

Step 2: Choose the fund with the lowest fees

A final word

Too many Australians are unaware of the devastating impact high fees have on their long-term retirement savings.

Our research makes it clear that the scale of the conflicts of interest are deeply embedded in Australia's financial institutions. This has led to a situation that will impact many Australians, who will never be able to afford a comfortable retirement due to unnecessary superannuation fees over their lifetime.

The Royal Commission into Banking Conduct and the Productivity Commission has surfaced some of the reasons people end up in poor performing funds.

Many relate to issues that arise when stakeholders including financial advisers, trustees, executive teams, fund managers and consultants have incentives that are not aligned with the people they represent - the fund members.

With an estimated $20 billion spent on superannuation fees every year, it is a well paid gravy train for many who work in the superannuation industry[2].

We hope that the recommendations from the Royal Commission and Productivity Commission lead to changes to the superannuation system which result in:

- fewer conflicts
- more transparency; and
- lower fees for Australians.

We welcome all feedback on the report and hope you find it helpful for understanding what matters most when selecting a super fund.

- Chris Brycki

[2] Grattan Institute, Super Sting: how to stop Australians paying too much for superannuation

Contents

Stockspot makes investing easy and affordable

Want to know more about how Stockspot can help you grow your savings? Go to www.stockspot.com.au to find out how.

Fat Cat Fund Awards

How our ratings are different

Our super fund ratings differ from others in two ways:

- Most ratings businesses are paid by the funds who they rate. This creates a conflict of interest and means they only show the top funds. Stockspot doesn't get paid by the funds we rate which means we can show the top and bottom performers.
- We compare apples to apples. Many ratings don't question the asset allocations (growth and defensive assets) reported by the funds. There's no verification of the actual risk of the defensive assets reported by funds. It allows super funds to 'game' the ratings system by mis-categorising growth assets as defensive assets to move up the comparison tables.

What is a defensive asset?

ASIC defines defensive assets as cash or government bonds.

Cash is defensive because when markets fall it holds its value. High grade bonds can do one better and rise when share markets fall. History backs this up too; in each of the six times Australian shares had a down year in the past 20, bonds rose to cushion the impact.

Can other assets be defensive?

This depends on the opinion of the super fund manager or ratings agency and there is strong history to demonstrate their opinions are often incorrect.

High income stream and low growth assets

Just because an investment delivers a big income stream, it does not make it a defensive asset. Take Telstra. Most of Telstra's returns come from regular fully franked dividend income but its share price has dropped 50% since 2015.

Infrastructure and property assets

Much infrastructure and property in super is held in unlisted vehicles which raises three issues:

- The value of the investment is the opinion of the fund manager. There is no way to know if that value is credible given there is no open market for the asset.
- The financial structure may see a return of capital reported as an income distribution.
- The investment is very illiquid and a sale is often extremely constrained by agreements with co-investors, including first right of refusal and so-called 'tag-and-drag' conditions. One critical characteristic of a defensive asset is to be able to sell it in a deep and open market.

The inherently risky nature of these investments is usually exposed towards the end of each market cycle when too much debt is loaded in to increase returns. In 2008 the Real Estate Investment Trust (REIT) sector fell by a whopping 75% globally because these funds had created income which couldn't be sustained under high debts and falling prices.

During the Global Financial Crisis some super funds stopped people from taking their money out because they couldn't sell illiquid unlisted assets. MTAA super lost $1.67 billion due to its hedging of unlisted assets.[3] MTAA super lost its spot as one of the best performing funds in 2008 to become the second worst according to Super Ratings.

[3] MTAA Super unveils hefty losses, Sydney Morning Herald

Creative definitions of defensive assets

In recent times many super funds have invented their own definition of what a defensive asset is, this has helped push them up the rankings of other super fund ratings.

Some large funds misstate their defensive assets by over 20%, which could mean 'balanced' funds by name are taking risk more similar to a 'high growth' option.

We only count cash and bonds as defensive assets for our ratings, history shows these assets have produced a positive return when share markets fall.

Diversification is particularly critical during periods of market stress

Median Asset Returns during the Worst Decile of Australian Equity Months February 1992 to December 2016

Source: Vanguard's approach to constructing Australian Diversified Funds.

Fat Cat Awards

We have compared performance over five years to identify **Fat Cat Funds** and **Fit Cat Funds.**

Fat Cat Funds are the worst 10 funds by performance in each category over five years. They consistently underperformed and overcharged their members for at least five years.

Every year we find that ANZ/OnePath (now IOOF) comes out as the number one Fat Cat. Rather than refund or reduce the fees on these products ANZ recently sold these funds to IOOF. We hope next year IOOF lowers its fees for people in these funds.

Despite the weight of evidence that fees matter massively, our findings show super funds are only reducing them very slowly (if at all). Super funds could improve performance by simply reducing the fees they charge you.

GOLDEN **FAT CAT** *is awarded to* ANZ / OnePath *who offers* 10 FAT CAT FUNDS	OnePath Masterfund - OptiMix Balanced Trust OnePath Masterfund - OnePath Managed Growth Trust OnePath Masterfund - OnePath Active Growth Trust OnePath Masterfund - OnePath Select Leaders Trust OnePath Masterfund - OptiMix Growth Trust OnePath Masterfund - OnePath Tax Effective Income Trust OnePath Masterfund - OptiMix Moderate Trust OnePath Masterfund - OptiMix High Growth Trust OnePath Masterfund - OnePath Balanced Trust OnePath Masterfund - OptiMix Conservative Trust
SILVER **FAT CAT** *is awarded to* Perpetual *who offers* 4 FAT CAT FUNDS	Perpetual WealthFocus Superannuation Fund - Perpetual Diversified Growth Perpetual WealthFocus Superannuation Fund - Perpetual Conservative Growth Perpetual's Select Superannuation Fund - Diversified Perpetual's Select Superannuation Fund - Conservative
BRONZE **FAT CAT** *is awarded to* StatePlus *who offers* 3 FAT CAT FUNDS	StatePlus Retirement Fund - Balanced StatePlus Retirement Fund - Moderate StatePlus Retirement Fund - Capital Stable
and to AMP *who offers* 3 FAT CAT FUNDS	AMP Superannuation Savings Trust - BlackRock Global Allocation AMP Superannuation Savings Trust - Future Directions Moderately Conservative AMP Superannuation Savings Trust - Responsible Investment Leaders Conservative

Fit Cat Funds

Fit Cat Funds are the top 10 funds by performance in each category over five years.

These funds have managed to provide better returns for their members.

GOLDEN FIT CAT
is awarded to
Unisuper
who offers
5 FIT CAT FUNDS

- Unisuper - High Growth
- Unisuper - Sustainable High Growth
- Unisuper - Balanced
- Unisuper - Conservative Balanced
- Unisuper - Conservative

SILVER FIT CAT
is awarded to
Rio Tinto Staff Superannuation Fund
who offers
4 FIT CAT FUNDS

- Rio Tinto Staff Superannuation Fund - High Growth
- Rio Tinto Staff Superannuation Fund - Growth (MySuper)
- Rio Tinto Staff Superannuation Fund - Conservative Growth
- Rio Tinto Staff Superannuation Fund - Conservative

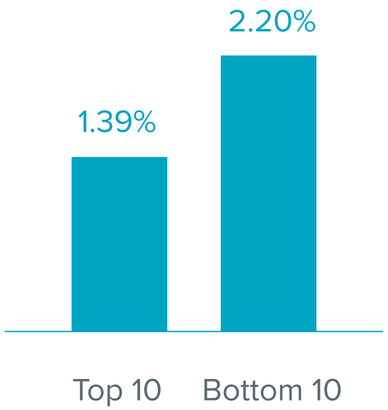
BRONZE FIT CAT
is awarded to
Equipsuper
who offers
3 FIT CAT FUNDS

- Equipsuper - Growth Plus
- Equipsuper - Balanced
- Equipsuper - Conservative

High Growth Funds

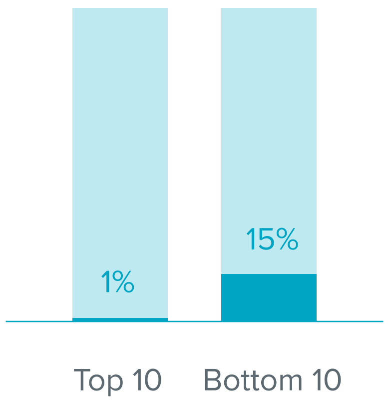
Fees

Average annual fees



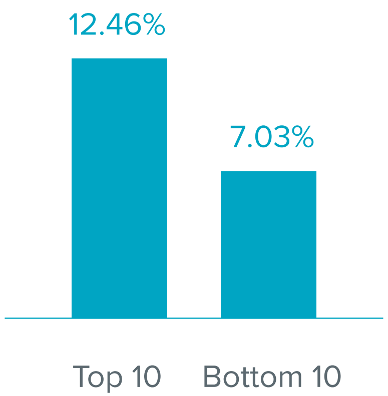
Allocation

Average allocation to cash and bonds as a percentage of investment mix



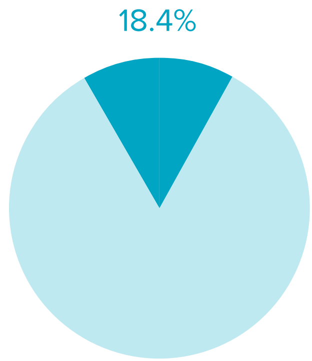
Return

Average annual return for the past five years



Index Fund Comparison

Percentage of high growth super funds that beat an index fund of similar risk after fees and taxes.



High Growth Funds

Top 10 - Fit Cat Funds

The top performing funds in this group had very little fixed income and cash. This helped them achieve returns of 12-14% p.a. over five years as growth investments have enjoyed strong returns in recent years. A simple index fund beat 4 of every 5 high growth funds over the past five years.

	Type	Name	5 year returns
1	Retail	MLC Superannuation Fund - MLC Horizon 7 Accelerated Growth Portfolio	14.10%
2	Industry	Unisuper - High Growth	12.56%
3	Industry	First Super - Shares Plus	12.45%
4	Corporate	Rio Tinto Staff Superannuation Fund - High Growth	12.31%
5	Industry	Equipsuper - Growth Plus	12.27%
6	Industry	Unisuper - Sustainable High Growth	12.27%
7	Industry	Intrust Super Fund - Growth	12.27%
8	Industry	Statewide Superannuation Trust - High Growth	12.19%
9	Industry	Club Plus Superannuation Scheme - High Growth	12.10%
10	Industry	Construction & Building Unions Superannuation - High Growth	12.10%

High Growth Funds

Bottom 10 - Fat Cat Funds

The bottom funds typically had more (15%) cash and bonds and higher fees. The average fee was 2.2%. This dragged performance down to 6-8% p.a.

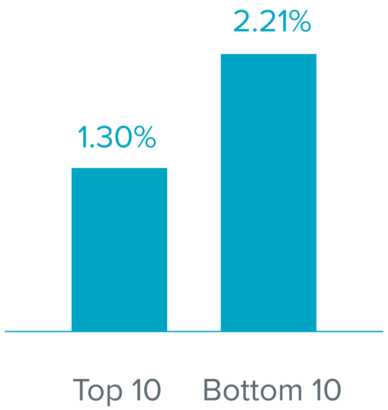
OnePath featured heavily in the Fat Cat list with four of the ten worst performing funds.

	Type	Name	5 year returns
1	Retail	OnePath Masterfund - OptiMix Balanced Trust	6.12%
2	Retail	OnePath Masterfund - OnePath Managed Growth Trust	6.31%
3	Retail	MLC Superannuation Fund - MLC Inflation Plus Portfolios - Assertive Portfolio	6.78%
4	Retail	OnePath Masterfund - OnePath Active Growth Trust	6.79%
5	Industry	Maritime Super - Moderate	7.01%
6	Retail	OnePath Masterfund - OptiMix Growth Trust	7.08%
7	Industry	Australian Catholic Superannuation and Retirement Fund - Balanced	7.15%
8	Corporate	Commonwealth Bank Group Super - Balanced	7.42%
9	Public Sector	Energy Industries Superannuation Scheme-Pool A - Balanced	7.67%
10	Retail	OnePath Masterfund - OnePath Select Leaders Trust	7.94%

Growth Funds

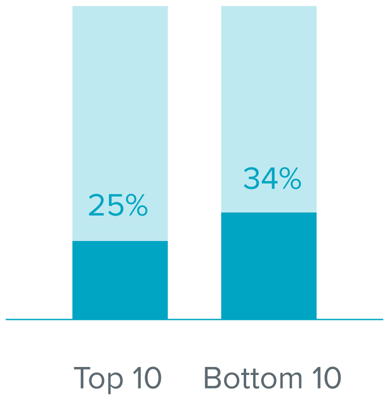
Fees

Average annual fees



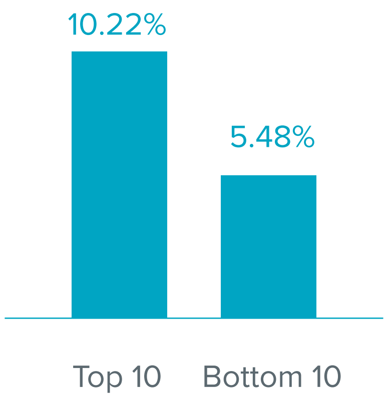
Allocation

Average allocation to cash and bonds as a percentage of investment mix



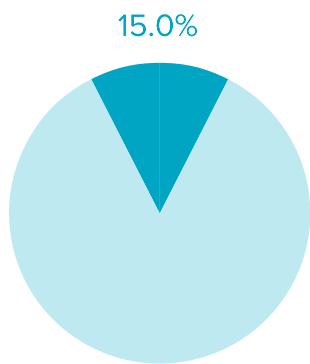
Return

Average annual return for the past five years



Index Fund Comparison

Percentage of growth super funds that beat an index fund of similar risk after fees and taxes.



Growth Funds

Top 10 - Fit Cat Funds

The top performing funds in this group had a relatively small (25%) allocation to fixed income and cash. This allowed them to return 10-11% p.a. over five years; the higher allocation to growth investments helped them to enjoy a strong few years of returns. A simple index fund beat 5 of every 6 growth funds over the past five years.

	Type	Name	5 year returns
1	Industry	HESTA - Eco Pool	11.31%
2	Public Sector	QSuper - Aggressive	11.10%
3	Industry	NGS Super - High Growth	10.19%
4	Industry	Unisuper - Balanced	10.14%
5	Corporate	Rio Tinto Staff Superannuation Fund - Growth (MySuper)	10.10%
6	Retail	The Bendigo Superannuation Plan - Bendigo Growth Index	10.05%
7	Industry	MyLifeMyMoney Superannuation Fund - Balanced (MySuper)	9.86%
8	Retail	IOOF Portfolio Service Superannuation Fund - IOOF MultiMix Balanced Growth	9.81%
9	Industry	Prime Super - MySuper	9.80%
10	Industry	MTAA Superannuation Fund - My AutoSuper (Balanced)	9.80%

Growth Funds

Bottom 10 - Fat Cat Funds

The bottom funds in this group typically had a higher (34%) allocation to cash and bonds and high fees of 2.21% on average. This pulled down their performance to 5-6% p.a.

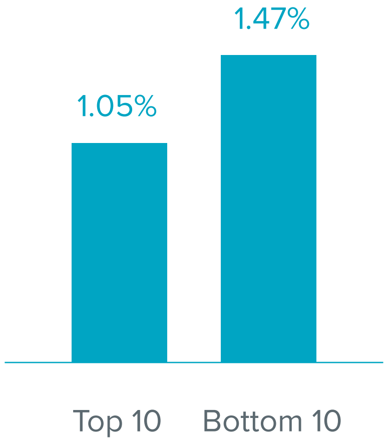
OnePath again featured heavily in this Fat Cat list with the four worst performing funds.

	Type	Name	5 year returns
1	Retail	OnePath Masterfund - OnePath Tax Effective Income Trust	4.77%
2	Retail	OnePath Masterfund - OptiMix Moderate Trust	4.91%
3	Retail	OnePath Masterfund - OptiMix High Growth Trust	4.99%
4	Retail	OnePath Masterfund - OnePath Balanced Trust	5.00%
5	Retail	Perpetual WealthFocus Superannuation Fund - Perpetual Diversified Growth	5.30%
6	Retail	AMP Superannuation Savings Trust - BlackRock Global Allocation	5.41%
7	Industry	Queensland Independent Education & Care Superannuation Trust - Conservative Growth	5.75%
8	Industry	Labour Union Co-Operative Retirement Fund - Targeted Return	5.93%
9	Retail	AMP Superannuation Savings Trust - Future Directions Moderately Conservative	6.35%
10	Retail	StatePlus Retirement Fund - Balanced	6.40%

Balanced Funds

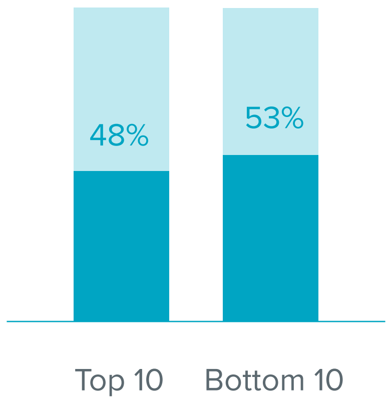
Fees

Average annual fees



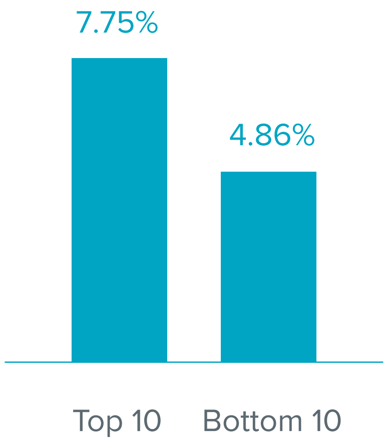
Allocation

Average allocation to cash and bonds as a percentage of investment mix



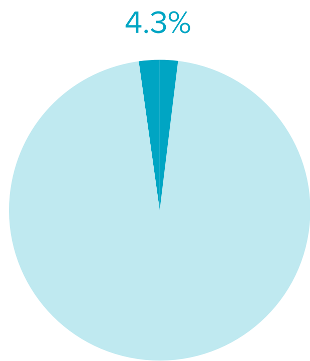
Return

Average annual return for the past five years



Index Fund Comparison

Percentage of balanced super funds that beat an index fund of similar risk after fees and taxes.



Balanced Funds

Top 10 - Fit Cat Funds

The top performers in this group had a 48% allocation to fixed income and cash. This helped them achieve returns of 7-9% p.a. over five years. A simple index fund beat an extraordinary 19 of every 20 balanced funds over the past five years.

Industry and corporate funds made up 8 of the 10 Fit Cat Funds.

	Type	Name	5 year returns
1	Industry	Australian Super - Conservative Balanced	8.46%
2	Retail	The Bendigo Superannuation Plan - Bendigo Balanced Index	8.45%
3	Industry	Unisuper - Conservative Balanced	7.91%
4	Corporate	Rio Tinto Staff Superannuation Fund - Conservative Growth	7.76%
5	Industry	Equipsuper - Balanced	7.64%
6	Industry	legalsuper - Conservative balanced	7.60%
7	Industry	First Super - Conservative Balanced	7.54%
8	Industry	NGS Super - Balanced	7.51%
9	Industry	MyLifeMyMoney Superannuation Fund - Moderately Conservative	7.42%
10	Industry	Austsafe Superannuation Fund - CRF Capital Stable	7.20%

Balanced Funds

Bottom 10 - Fat Cat Funds

There was a mix of retail, industry, corporate and public sector funds in the Fat Cat list. The common theme is these funds charge higher than average fees.

The bottom performing funds in this group typically had a higher (53%) allocation to cash and bonds and higher fees. This dragged down their performance to 3-5% p.a.

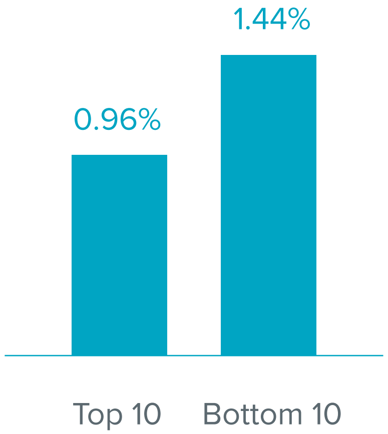
Funds who fit into this group go by many names: balanced, conservative balanced, conservative growth, moderately conservative and moderate. People need to be careful to understand the asset mix of their fund, not rely on how it has been named.

	Type	Name	5 year returns
1	Retail	OnePath Masterfund - OptiMix Conservative Trust	3.58%
2	Retail	Perpetual WealthFocus Superannuation Fund - Perpetual Conservative Growth	4.10%
3	Public Sector	AvSuper Fund - Conservative Growth	4.90%
4	Industry	Maritime Super - Conservative	4.95%
5	Industry	StatePlus Retirement Fund - Moderate	5.00%
6	Public Sector	Energy Industries Superannuation Scheme-Pool A - Conservative	5.01%
7	Corporate	IAG & NRMA Superannuation Plan - Conservative	5.20%
8	Industry	Labour Union Co-Operative Retirement Fund - Conservative	5.29%
9	Retail	The Bendigo Superannuation Plan - Sandhurst BMF-Bendigo Conservative	5.29%
10	Retail	Perpetual's Select Superannuation Fund - Diversified	5.31%

Moderate Funds

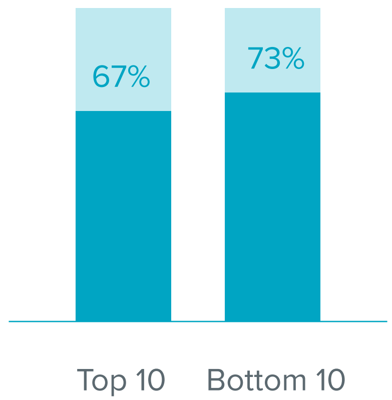
Fees

Average annual fees



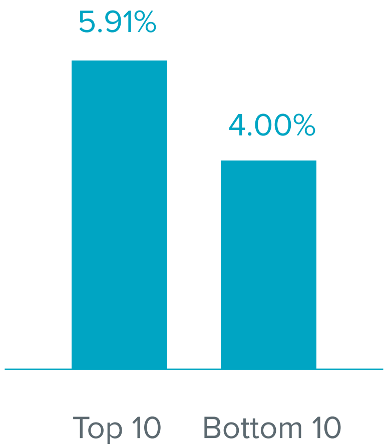
Allocation

Average allocation to cash and bonds as a percentage of investment mix



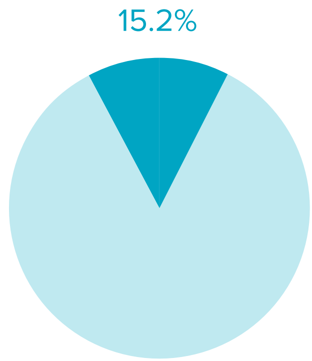
Return

Average annual return for the past five years



Index Fund Comparison

Percentage of Moderate super funds that beat an index fund of similar risk after fees and taxes.



Moderate Funds

Top 10 - Fit Cat Funds

The top performing funds in this group had a 67% allocation to fixed income and cash. This helped them achieve returns of 5-7% p.a. over five years.

Industry and corporate funds made up 9 of the 10 Fit Cat Funds.

	Type	Name	5 year returns
1	Industry	Prime Super - Conservative	6.69%
2	Retail	IOOF Portfolio Service Superannuation Fund - IOOF MultiMix Conservative	6.14%
3	Industry	Unisuper - Conservative	6.12%
4	Industry	legalsuper - Conservative	6.00%
5	Public Sector	QSuper - Moderate	5.81%
6	Industry	Club Plus Superannuation Scheme - Conservative Balanced	5.80%
7	Industry	MTAA Superannuation Fund - Conservative	5.71%
8	Industry	Tasplan Superannuation Fund - Conservative	5.63%
9	Industry	Equipsuper - Conservative	5.61%
10	Corporate	Rio Tinto Staff Superannuation Fund - Conservative	5.56%

Moderate Funds

Bottom 10 - Fat Cat Funds

The bottom performing funds in this group typically had a higher (73%) allocation to cash and bonds, as well as higher fees. This reduced their performance to 3-4.5% p.a.

	Type	Name	5 year returns
1	Retail	Colonial First State FirstChoice Superannuation Trust - FirstChoice Defensive	3.49%
2	Retail	StatePlus Retirement Fund - Capital Stable	3.50%
3	Retail	Australian Ethical Retail Superannuation Fund - Conservative	3.70%
4	Retail	AMP Superannuation Savings Trust - Responsible Investment Leaders Conservative	3.76%
5	Public Sector	LGIAsuper - Defensive	3.99%
6	Public Sector	QSuper - Lifetime Sustain 2	4.08%
7	Retail	Zurich Master Superannuation Fund - Zurich Capital Stable	4.23%
8	Industry	Australian Catholic Superannuation and Retirement Fund - Conservative	4.30%
9	Industry	Perpetual's Select Superannuation Fund - Conservative	4.44%
10	Retail	AMG Super - AMG Conservative	4.48%

How To Pick A Great Super Fund

Our six years of research comparing super fund performance and fees suggests that Australians should focus on two factors when selecting a super fund for the best chance of success:

Step 1: Find the right type of fund based on your capacity to take risk

A successful superannuation strategy starts with a mix of investments that's suitable for your investment horizon and retirement goals.

The balance between risk and return should be the main consideration when working out the right the mix of different investments in your super fund. The further away retirement is, the greater the amount of risk you can take.

For most people, we would suggest the below mix of investments provides the right balance to maximise long term returns, reduce short term risk, avoid regret (of losses or missing out on gains), keep up with inflation and increase certainty towards retirement.

Age	20s and 30s	40s and 50s	60+
Bonds and cash	0% to 30%	21% to 50%	41% to 70%
Shares, property and other growth investments	70% to 100%	50% to 79%	30% to 59%
Investment mix	High Growth / Growth	Growth / Balanced	Balanced / Moderate

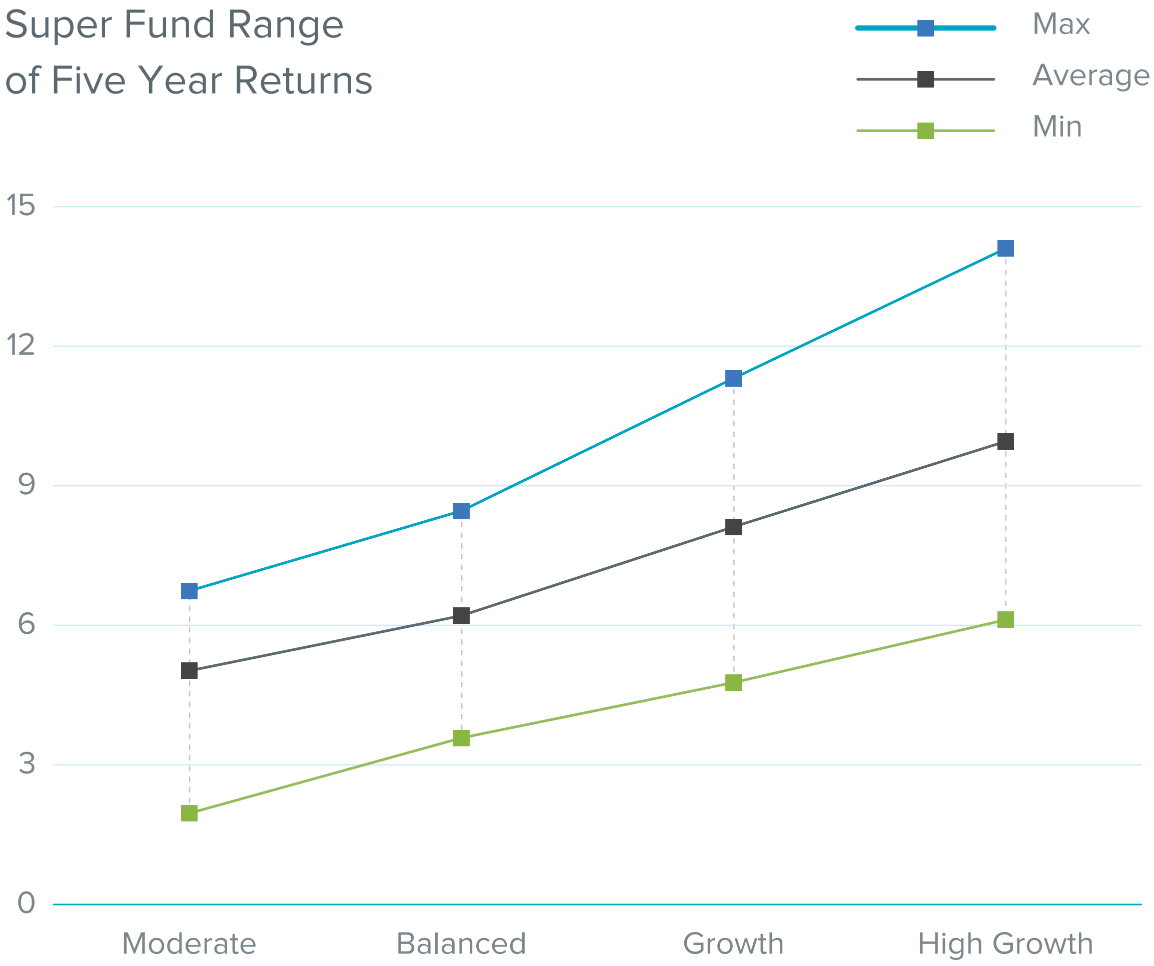
Growth assets (typically shares and property) have the potential for higher returns over the long-run, however they come with a higher risk of negative returns in the short run.

Defensive assets (bonds and cash) provide more steady returns and help to cushion periods of negative share market returns when share markets dip.

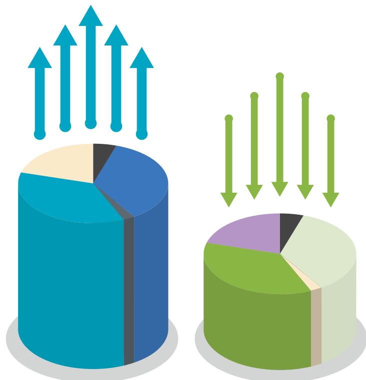
Markets will go up and down, you need to accept some risk to reach your retirement goals. Our research shows that the type of assets chosen in your super fund drives the vast majority of returns. The actual shares chosen by a particular fund manager has minimal impact over time.

Research from Vanguard found that asset class choice drives 89.3% of return differences for an Australian investor. This means that active decisions that individual super fund managers make, such as market timing and stock picking have relatively little impact on returns over long periods so shouldn't be significant considerations in your choice of fund.

Super Fund Range of Five Year Returns



The mix between growth and defensive assets is the primary driver of returns in your super fund. Super funds with more bonds and cash generally have lower but steadier long-term returns and a lower chance of significant short-term losses. Over the last five years share markets have risen, so funds with more growth assets have performed well.



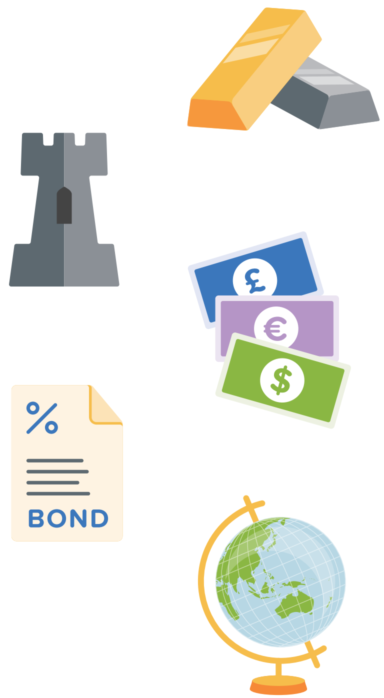
The following table shows average returns of a simple portfolio of shares and bonds since 1900 to illustrate how risk (and returns) increase as you reduce bonds and cash in a portfolio. We have also included the probability of a 10% or 20% loss to show how bonds cushion the impact of negative years in the share market and reduce the chance of significant drawdowns.

Fund type	Moderate	Balanced	Growth	High growth
Shares	20%	40%	60%	80%
Bonds	80%	60%	40%	20%
Historical returns since 1900	5.7% p.a.	6.4% p.a.	7.1% p.a.	7.7% p.a.
Chance of a 10% loss in any one year	1%	13%	42%	64%
Chance of a 20% loss in any one year	< 1%	< 1%	3%	15%
Chance of reaching a 4% real return over 10 years	9%	33%	48%	56%

Note: Shares are represented by the MSCI All Country World Index. Bonds are represented by the Bloomberg Barclays Global Aggregate Bond Index. The probabilities of various investment outcomes are based on the Vanguard Capital Markets Model (VCMM) forecasts.

You should also look for a fund with good diversification across the assets it invests in, for instance by including Australian and international shares. This helps to reduce exposure to risks associated with a particular country, company, or market sector.

Some funds also offer exposure to other assets such as direct property, infrastructure, credit alternatives and venture capital. Historically these assets can provide some diversification benefits, however unlike bonds they generally move in the same direction as shares so should be considered part of the growth investment group. This is particularly important for people close to retirement who want to protect against the chance of significant drawdowns and need cash-flow soon.



Step 2: Choose the fund with the lowest fees

Fees are the other most important factor when choosing a superannuation fund. You can't control how markets perform, but you can control how much you pay for the management of your money.

The smaller that fee, the greater your share of the investment's returns. Our research shows that lower-cost super funds tend to outperform higher-cost alternatives across all categories.

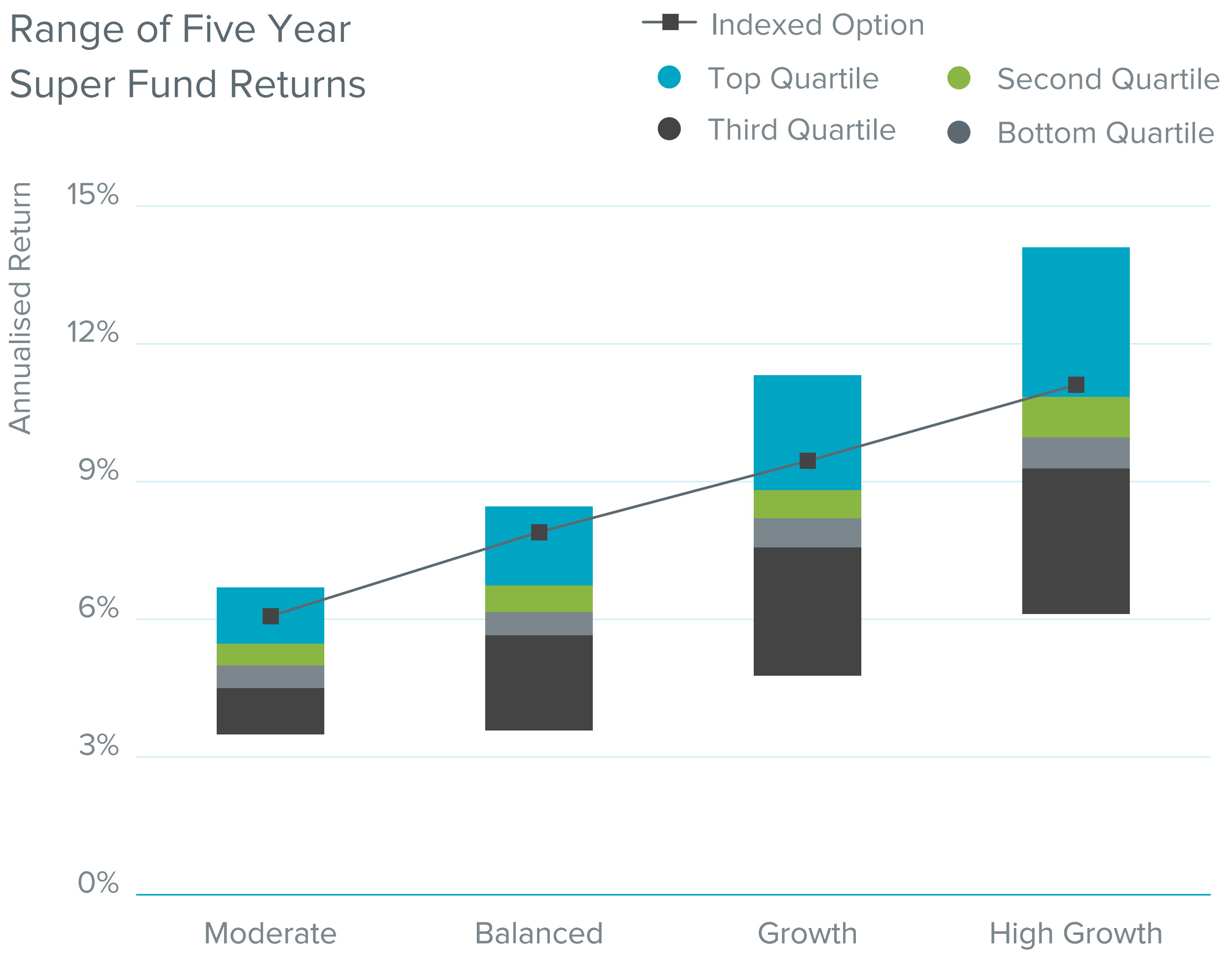
Our research over the last six years shows funds that charge less than 0.75% p.a. perform better in the long-term.

	Average return over five years		
	Higher fee funds (over 0.75% p.a.)	Lower fee funds (under 0.75% p.a.)	Difference
High Growth	9.92%	10.60%	+0.68% p.a.
Growth	8.07%	8.77%	+0.70% p.a.
Balanced	6.17%	6.58%	+0.41% p.a.
Moderate	4.95%	5.38%	+0.43% p.a.

Over five years less than 1 in 20 balanced super funds were able to beat a balanced index fund with similar risk after fees and taxes. Australians would benefit greatly if they simply looked for a super fund with suitable risk and the lowest possible fees. A simple, low-cost indexing strategy achieved top quartile returns in each category over the past five years.

This is consistent with recent research by UNSW Professor Dr Nicholas Morris who wrote "Management and Regulation of Pension Schemes: Australia - A Cautionary Tale" (2018). In his book, Dr Morris shows that if the contributions made by super fund members between 1997 and 2016 had been invested in an index fund (with a suitable risk profile and typical expenses) they would now be about $700-800 billion dollars larger.

Range of Five Year Super Fund Returns



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Your Super Guide: 20s and 30s

For many people superannuation is the single most important source of savings they will have over their lifetime.

This is why it's important to get it right at your different life stages.

This guide will help you identify what matters in your super.

What fees mean in your 20s and 30s

At this age anything is possible. You're working life out, you're planting roots or tearing them up and making big changes. You're finding your tribe, your passion, discovering what is important to you and changing your mind.

Starting a family. Travelling the world. Climbing the career ladder. Whatever it is, your 20s and 30s is the time to establish your savings.

The last thing you want to think about is superannuation. Yet at this age, being in a good super fund can have the biggest impact on your financial future.

Fees matter in your 20s and 30s

A typical Fat Cat Fund charges 2% per year in fees. Two percent doesn't sound like much, so let's look at how much that is over a lifetime of work.

The average millennial in a Fat Cat Fund can expect to lose over a quarter (27%) of their potential super savings in fees.

Men will lose $334,826 and women will lose $288,641 over their lifetime. Imagine what you could do with that money - you could retire years earlier and travel the globe.

Over a quarter of a million dollars is paid to the superannuation industry through compounding of fees.

We say it every year: this is a shockingly high amount. Too many Australians are unaware of the impact compounding high fees have on their long-term savings.

Switching from a fund charging 2% per year to one charging 0.50% per year, all other things being equal, a male millennial could increase the super they'll have by $355,957 and a female by $306,291.

Three tips in your 20s and 30s

- You have time on your side and can afford to take more risk, so you should. High growth and growth funds have the potential for higher returns.
- Find a fund with low fees. High growth and growth funds with total fees of under 0.75% p.a. beat higher fee funds by around 0.70% p.a. Sure, it doesn't sound like a lot, but over 30 years that could add up to hundreds of thousands in extra savings.
- Look for a fund with good diversification across different countries and market sectors so you're not too exposed to any one part of the global economy.

Women and high fees

Fat Cat Fund fees put women at a great disadvantage. On average women earn less than men, and they're more likely to work part-time or take time out of the workforce for maternity leave and having children.

As a result, women generally retire with a lower superannuation balance than men. Fat Cat Fund fees eat away at these smaller balances and put women at risk of retiring in financial stress.

Millennial women therefore have the most to gain by ensuring their superannuation is not in a Fat Cat Fund. By moving from a fund charging 2% to one charging 0.5%, they could boost their final super balance by 38%.

Effect of Fees

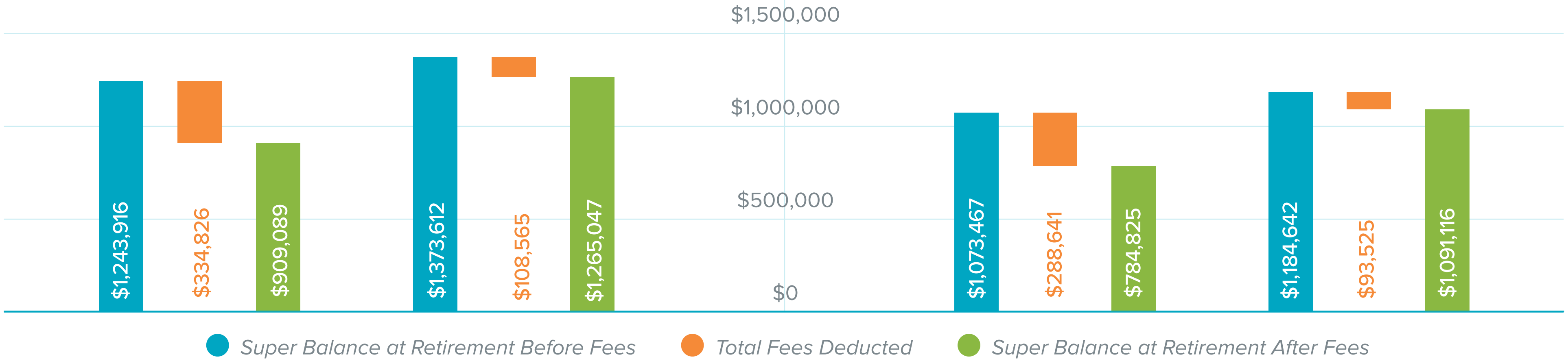
Millennial Male	Millennial Female

Super Boost

Boost to your final super balance by switching to a lower fee fund

Millennial Male	Millennial Female
+39%	+38%

	Millennial Male: High-fee fund (1.99% p.a. fee)	Millennial Male: Low-fee fund (0.50% p.a. fee)	Millennial Female: High-fee fund (1.99% p.a. fee)	Millennial Female: Low-fee fund (0.50% p.a. fee)
of balance lost to fees	27%	8%	27%	8%



Questions to Ask Your Super Fund

What are the total fees I'm paying?

Ask your fund how much you paid last year in total including: administration costs, management fees, performance fees, transactional and operational costs, borrowing costs and property operating costs.

We found funds who charge total costs of less than 0.75% p.a. did better than those who charged more.

In reviewing thousands of super fund options, we are constantly shocked at how difficult funds make it for Australians to find the total fees they're paying. Fee disclosure varies greatly between funds: many don't show fees on their website and hide them deep in downloadable documents. Some funds still exclude some costs in the fees they publish.

Investment performance comes and goes but fees are with you every year.

It's important you know how much you pay your super fund in fees, as it could mean a difference of hundreds of thousands of dollars in retirement.

Do you index?

Our research shows that 96% of balanced super funds underperformed a simple low-cost index strategy after fees and taxes. This is consistent with research from Finalytiq[4] which found similar results in the UK, and S&P Dow Jones whose SPIVA research shows that 80% of active Australian share fund managers have underperformed the index over 15 years.[5]

Index funds are easy to access for superannuation managers, yet many choose not to invest in them, because of the conflicts of interest within the industry.

Which fund managers do you use?
How much are they paid?
How have they performed?

Few funds provide information on how their chosen fund managers have performed. The Productivity Commission also found poor transparency in this area and reported that only 5 of 208 super funds were willing to share data on asset level returns.[6]

Fees eat into returns and many fund managers charge high fees. If they are being used, you deserve to know how much they are paid and if their performance achieved a better result for your super.

[4] Finalytiq, The Multi-Asset Fund Guide

[5] S&P Dow Jones SPIVA Australia Mid-Year 2018

[6] Productivity Commission Draft Report on Superannuation Efficiency and Competitiveness

Our Plea to Government

Stockspot has been among the many voices calling for a Royal Commission into Banking Misconduct and we were pleased to see it commence in 2018. We will continue to lobby Government to make changes to the industry to benefit all Australians.

Given that superannuation is the single most important savings vehicle most Australians will have, the Government urgently needs to address and reform policy on super and intervene to improve fairness and transparency for Australians.

Trustees, directors and advisers have fiduciary and other duties to protect members' interests, to avoid conflicts and to meet standards. Current regulation doesn't adequately address the many principal-agency problems and conflicts of interest that currently exist.

Competition and choice do not seem to work either, partly because of a lack of effective transparency over costs and their impact, as well as inertia and member apathy. We think the government should be focused on reducing conflicts of interest and rent-seeking behaviour and pushing the focus towards better member outcomes.

We believe Government should intervene to improve fairness in three ways:

1. Create a low-cost alternative default fund or implement a public tender process for the right to manage default super funds via a fee-based auction.

Data shows that low-cost funds are strongly correlated with higher returns, particularly over longer periods of time. A simple, low-cost indexing strategy achieved top quartile returns in each risk category over the past five and ten years.

This year the Productivity Commission has recommended a 'best in show' shortlist to improve super outcomes. We are concerned that this recommendation may embed existing high costs, create incentives to 'game' the system and lead to lobbying to be selected as one of the ten shortlisted funds. We need to reduce costs and improve transparency across all funds, rather than promote existing practices and costs which have been a result of a broken market structure.

There are also some problems with how this recommendation would be implemented. The selection criteria for the 'best in show' shortlist would be likely to preference funds who have been recent top performers due to asset tilts. This is more often mean-reverting, so the super funds at the top of the list over one rolling five year period are not likely to stay there over longer periods unless they are also low-cost funds.

2. Require all superannuation funds to provide their fee and performance data in a standardised format to a government-backed fund comparison website so that consumers can easily compare their options.

A major issue with the superannuation industry is the lack of disclosure of all costs. Currently disclosure of fund management costs is limited to regulated entities and most funds management is outsourced. Despite this being an issue which has been raised in all reviews since the industry was established, regulators have not succeeded in forcing the industry to disclose fully the costs of outsourced activities, especially funds management.

It's also nearly impossible to see how different products are really performing because the data isn't available in a standardised format. An easy to use fund comparison website would help consumers and advisers make a more informed decision when selecting a fund.

3. Require all superannuation funds to publish their investment allocations by fund manager, the fees paid to each manager, and their net of fee performance.

It is telling that only 5 of 208 funds were prepared to provide asset level returns to the Productivity Commission. By improving transparency on performance, funds will be held more directly accountable for performance results to their members.

Stockspot recently made a public submission to the Royal Commission to bring these facts to their attention, and we will continue to lobby the government to make much needed changes to simplify superannuation, reduce fees and force funds to be more accountable to their members.

Our Methodology

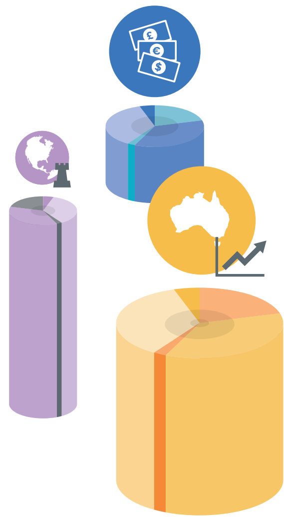
We developed the Fat Cat ratings to help consumers compare super funds, to find funds that have consistently done well and avoid funds with a track record of consistently delivering poor returns.

Stockspot's Fat Cat ratings are based exclusively on data relating to a fund's investment mix and published returns.

Our Universe and Benchmarks

We've analysed Australian superannuation funds across the four largest 'multi-asset' categories which include the major default funds and account for most of Australia's superannuation pool.

- We only consider funds that have existed for at least five years, who have up-to-date data on performance and fees available on their website.
- Fund performance data is as at 30 June 2018.
- We have calculated total fees payable by a member with a $50,000 balance.
- Funds are categorised using their underlying asset allocation, with the grouping of mixed asset funds based on how much of the fund's portfolio is invested in defensive assets.
- We have compared funds with similar levels of defensive assets (cash and bonds).



Fund category	Percentage of cash and bonds
High Growth	0 - 20%
Growth	20.1 - 40%
Balanced	40.1 - 60%
Moderate	60.1 - 80%

Why have we chosen five years?

You need to see how a fund has done over a full market cycle (typically 10 years) to have a high level of confidence around how it performs in good and bad times. Since many of the default MySuper options don't have 10 years of history yet, we've considered performance over five years for this report so more funds could be included.

It's worth noting that some of the funds that have performed well over five years have done so by having a higher allocation to a particular asset, for example global shares.

Assets go through cycles so just because one asset has done over the last five years doesn't mean it will continue to go well over the next five years. For this reason we suggest fund members don't put too much emphasis on past performance and instead focus on the two factors that have the best predictive power which are **risk** (allocation to bonds and cash) and **fees.**

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About Stockspot

Stockspot is Australia's leading online investment adviser and fund manager. Since 2013, we have helped thousands of Australians create financial freedom. We are an independent thought leader on wealth creation, guiding our clients on a better way to invest for the long-term.

Our philosophy is built on the values of simplicity, consistency and discipline.

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