SelectingSuper
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In superannuation, bigger can be better but not always

With Australia's biggest super fund, AustralianSuper, announcing yet another merger, this time with the public sector industry fund AGEST, the question is whether super funds are merging for the benefit of their members or to build financial empires.

The good news is that research conducted by SelectingSuper and its corporate partner Rainmaker Information reveals that while bigger funds don't automatically out-perform small ones they are more likely to.

"This means bigger funds are more likely to achieve above average investment returns, which is what you would expect given the extra resources available to them," said Alex Dunnin, director of research at Rainmaker Information.

"Smaller funds smartly run by shrewd and strategically minded executive teams can do just as well but members need to make sure they are in one of these better run small funds," he said.

Dunnin said the findings are based on an analysis of the last 10 year's super fund returns that revealed 60% of larger funds with more than $15 billion in assets under management beat the market average compared to just 20% of smaller funds that have less than $2 billion. Reinforcing the results, about 50% of mid-size funds beat the market average.

Dunnin said the research analysed rolling returns over 1, 5 and 10 years to end June 2011 for workplace not-for-profit super fund default investment options. Retail funds weren't included in the analysis as trustees in these funds manage their assets less pro-actively and because retail funds are generally much younger funds with shorter track records.

Dunnin said you need to look at the results this way because simplistically analysing the relationship between a fund's size and its return shows no pattern whatsoever.

Dunnin said the research results reinforce why more super fund trustee boards are exploring fund mergers. "The research highlights why the purpose of fund mergers should be investment outcomes, not just to save a few dollars in administration fees, savings that often don't eventuate," he said.

Merging funds will result in Australia's leading funds becoming increasingly large and this may make them prone to conservative investing. But funds are avoiding this temptation by using large numbers of investment managers so even though the fund is big the investment mandates underpinning them can be much smaller.

"This enables investment managers to remain nimble and opportunistic when they need to be while also providing the large volume scale for the overarching funds when the bigger deals come along," said Dunnin.

This heightened focused on investment outcomes is manifesting itself in other ways too, such as in more funds appointing their own in-house Chief Investment Officers, conducting their own research into investment managers and by them increasingly challenging the advice of their asset consultants - which doesn't undermine their advisers but ironically enables trustee boards to get the best out of them.

This tougher investment focus, especially following the GFC which has put huge pressure on super funds to explain their investment strategies to their members, conversely means members should end up having less tolerance for under-performance.

"Australia's larger super funds are amassing portfolios larger than those controlled by the external fund managers they are appointing, resulting in super funds in reality becoming multi-managers in their own right and that's how they should be judged," said Dunnin.

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Dunnin said funds becoming big does have its risks, however, because they can lose touch with their members. But this risk can be overcome with marketing and communication plans built around their community of members, such as their home industries, employer associations, unions, and distribution networks and through strategic branding campaigns.

"In some cases this might mean funds, even not-for-profit super funds, selectively sponsoring community or sporting events just as the retail wealth groups already do. Criticising them for doing this is ludicrous, especially as it's an incredibly efficient way for funds to reinforce their brands amongst their membership," he said.

The proviso is of course that funds must maintain their investment focus and keep their fees low, said Dunnin.

This shift to more extremely large funds will have other results as well.

"By the end of this decade Australia's largest super funds could each be managing more than $100 billion. It would make them larger than the current ASX market capitalisations of our major banks," said Dunnin.

Dunnin said the irony of Australia's super funds becoming so large is, however, that there are so few home grown fund managers large enough to absorb this investment volume.

He said only 43% of the money in Australia's investment market is managed by Australian-owned managers. "Australia's growing superannuation funds provide local fund managers with a huge opportunity," he said.

Largest super funds in Australia, September 2011

RANK	Fund Name	Segment	FUM ($m)	Members
1	AustralianSuper	Industry fund	$40,829	1,800,000
2	QSuper	Govt fund	$31,787	616,952
3	State Super (NSW)	Govt fund	$29,676	134,658
4	UniSuper	Industry fund	$27,460	446,493
5	First State Superannuation Scheme	Industry fund	$20,998	566,557
6	Retail Employees Superannuation Trust	Industry fund	$19,708	2,009,033
7	Australian Reward Investment Alliance	Govt fund	$19,255	351,503
8	AMP Flexible Lifetime Super	Retail fund	$17,614	883,124
9	Sunsuper	Industry fund	$17,381	1,079,922
10	HESTA Super Fund	Industry fund	$17,228	687,125
11	Construction and Building Unions Superannuation	Industry fund	$16,709	662,599
12	Emergency Services and State Super	Govt fund	$15,542	148,239
13	Government Employees Superannuation Fund	Govt fund	$11,629	354,411
14	Colonial First State - FirstChoice Wholesale Pension	Retail fund	$11,304	
15	Plum Superannuation Fund Employer Division	Retail fund	$11,265	142,017
16	Telstra Superannuation Scheme	Corp fund	$10,748	103,722
17	Mercer Super Trust (Corporate Super Division)	Retail fund	$10,650	161,837
18	Colonial First State - FirstChoice Personal Super	Retail fund	$9,510	29,277
19	Health Super Fund	Industry fund	$9,297	193,693
20	HOST-PLUS	Industry fund	$9,141	984,973

-See following page for the latest SelectingSuper performance league table -

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Top 50 Workplace super funds, October 2011

Workplace funds by default investment options

		Crediting rates to end October 2011					
Super fund	**Segment**	1 yr	rank	5 yrs	rank	10 yrs	rank
Vision Super	Ind fund	4.1%	1	1.7%	24	5.1%	26
QSuper	Govt fund	3.9%	2	2.2%	13	5.6%	20
AXA Australia Tailored Super	Corp mast tr	3.7%	3	3.2%	2	3.3%	46
AXA Australia Simple Super	Corp mast tr	3.7%	3	3.2%	2	3.3%	46
ESSSuper	Govt fund	3.7%	5	2.5%	9	6.0%	14
HOST-PLUS	Ind fund	3.5%	6	2.0%	15	6.0%	11
Super SA - Triple S Scheme	Govt fund	3.3%	7	1.1%	36	5.9%	16
Catholic Super	Ind fund	2.9%	8	2.7%	7	6.1%	8
Health Super Fund	Ind fund	2.9%	9	1.6%	25	5.4%	24
BUSS(Q) Employer	Ind fund	2.8%	10	2.4%	11	6.1%	10
RecruitmentSuper	Ind fund	2.7%	11				
HESTA Super Fund	Ind fund	2.7%	12	1.9%	19	6.0%	12
CBA Officers' Super Fund	Corp fund	2.6%	13	3.7%	1	6.2%	6
CareSuper	Ind fund	2.3%	14	2.5%	10	6.3%	5
Cbus Industry Super	Ind fund	2.3%	14	2.0%	16	5.9%	15
ASSET Super	Ind fund	2.2%	16	0.5%	47	4.1%	39
AGEST Super	Ind fund	2.1%	17	0.7%	41	4.7%	35
AESuper	Ind fund	2.1%	18				
AustralianSuper	Ind fund	2.0%	19	1.9%	21	6.2%	7
Local Super	Ind fund	2.0%	20	2.1%	14	5.8%	17
AMIST	Ind fund	2.0%	20	1.8%	22	5.8%	19
FuturePlus Group Super	Corp mast tr	1.9%	22	1.1%	35	3.8%	43
Equipsuper Corporate	Ind fund	1.9%	23	1.9%	17	6.1%	8
TWUSUPER	Ind fund	1.8%	24	1.3%	32		
EISS	Govt fund	1.8%	25	-0.1%	53	3.9%	41
LUCRF Super	Ind fund	1.6%	26	0.6%	42	5.2%	25
Accountants Super	Ind fund	1.6%	26				
Telstra Super	Corp fund	1.5%	28	1.9%	17	6.0%	13
Health Industry Plan	Ind fund	1.4%	29	1.0%	39		
Maritime Super	Ind fund	1.3%	30	-1.0%	64	4.7%	34
NGS Super	Ind fund	1.0%	31	2.7%	8	5.8%	18
Acumen Corporate Super	Corp mast tr	1.0%	32	2.9%	5	6.5%	3
REST Industry Super	Ind fund	1.0%	32	2.9%	5	6.5%	3
ANZ Australian Staff Super	Corp fund	1.0%	34	0.6%	43		
IAG & NRMA Super Plan	Corp fund	1.0%	34	0.6%	43	4.3%	38
Combined Fund	Ind fund	0.9%	36	-0.1%	53	4.1%	40
REI Super	Ind fund	0.9%	37	0.2%	49	4.3%	37
AvSuper	Govt fund	0.9%	38	0.1%	50		
Quadrant Investment Choice	Govt fund	0.9%	38				
AustSafe Super	Ind fund	0.9%	40	1.3%	31		
Energy Super	Ind fund	0.9%	41	1.1%	37	5.1%	28
Retirement Benefits Fund (Tas)	Govt fund	0.8%	42	1.5%	26	5.5%	23
Rio Tinto Staff Super	Corp fund	0.8%	43	1.3%	33	4.7%	32
Club Plus Industry Division	Ind fund	0.7%	44	2.2%	12	6.9%	2
First State Super Scheme (NSW)	Ind fund	0.7%	45	1.0%	38	5.0%	29
Media Super	Ind fund	0.7%	46	0.9%	40	4.8%	31
Plum Super Employer	Corp mast tr	0.7%	46	-0.1%	52		
TASPLAN	Ind fund	0.7%	48	1.9%	20	5.1%	27
LGS	Govt fund	0.7%	49	-0.4%	58		
ARIA PSSap	Govt fund	0.6%	50	1.5%	27		
Average		0.9%	80 funds	1.1%	74 funds	5.1%	52 funds