

Atchison



Superannuation Market Place

Quarterly Review to 31 December 2023



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Special Feature: Addressing the Performance Gap: ASIC's Call for Enhanced Governance in Superannuation Choice Products

In February 2024, the Australian Securities & Investments Commission (ASIC) released Report 779 titled "Superannuation choice products: What focus is there on performance?" in the realm of superannuation, spotlighting the role of trustees, financial advisers, and Australian financial services licensees.

The document underscores a concerning lack of focus on performance and transparency, especially concerning underperforming investment options within choice superannuation products. This detailed investigation by ASIC reveals that these key stakeholders wield significant influence over member investment choices, with a direct impact on their retirement outcomes.

ASIC provides a set of recommendations as demonstrated in the table below, to improve practices within the industry. These aim to enhance transparency, performance focus, and overall governance in superannuation, ultimately benefiting member outcomes.

Entity	Recommendation
Superannuation Trustees	<ul style="list-style-type: none"> • <i>Prioritize performance when selecting and offering investment options.</i> • <i>Implement robust due diligence processes for new investment options.</i> • <i>Monitor all investment options for performance and have clear, objective criteria for detecting underperformance.</i> • <i>Respond effectively to underperformance, with a clear rationale if underperforming options are maintained.</i> • <i>Communicate transparently with members about investment option performance and underperformance.</i>
Advisers	<ul style="list-style-type: none"> • <i>Act in the best interests of clients, prioritizing performance in their advice.</i> • <i>Conduct thorough investigations and assessments of investment options to detect and address underperformance.</i> • <i>Ensure that advice provided is based on a comprehensive understanding of the investment options' performance.</i> • <i>Maintain accurate and detailed records of advice provided and the rationale behind it, especially in the context of investment performance.</i>
Advice Licensees	<ul style="list-style-type: none"> • <i>Ensure that advisers are complying with their obligations to prioritize performance and act in the best interests of their clients.</i> • <i>Implement rigorous processes for approving investment options for use by advisers, with a strong focus on performance.</i> • <i>Monitor and review approved investment options regularly to identify and address any underperformance.</i> • <i>Keep detailed records of the advice process, decisions made regarding investment option approvals, and actions taken in response to underperformance.</i>

The report serves as a call to action for the superannuation industry, urging stakeholders to adopt more rigorous and performance-oriented practices to safeguard and maximize members' retirement savings.

It should be noted that Atchison Consultants provides independent, comprehensive monitoring and reporting services for "choice" investment menus for APRA regulated superannuation funds and ASIC regulated advice licensees. Please contact either Jake Jodlowski (Principal) or Ye Peng (Investment and Data Analyst) for more information.

Superannuation Marketplace

Total Australian superannuation assets increased by 3.8% over the quarter to December 2023, driven by strong growth in financial markets (refer to equity performance over the quarter, as shown in Table 1 below), all assets experienced strong positive returns in the December quarter as developed markets experienced a notable surge on the back of anticipated lower interest rates.

Table 1: Quarterly Equity Performance – 31 December 2023

Asset Class	Index	Quarterly Return (%)
Australian Equities	S&P/ASX 200 TR	8.4
International Equities	MSCI World Ex Australia (AUD)	5.4
International Equities (Hedged)	MSCI World Ex Australia (in local currency terms)	9.2
Australian Listed Property	S&P/ASX 200 A-REIT TR	16.6
International Listed Property	FTSE EPRA/NAREIT Developed Ex Australia (AUD)	8.9

Source: S&P, MSCI, FTSE, FE

The composition of the Australian superannuation pool, in terms of fund types, is as follows:

Table 2: Assets by Fund Type – 31 December 2023

Type	Assets (\$ Billion)	Assets (%)
APRA-Regulated		
Corporate	47.3	1.3%
Industry	1271.5	34.4%
Public Sector	534.4	14.5%
Retail	713.0	19.3%
Other	1.8	0.0%
Total APRA-Regulated	2568.0	69.5%
Self-managed super funds	913.7	24.7%
Other	213.7	5.8%
Total	3695.4	100.0%

Source: APRA, Atchison Consultants

Australian superannuation total assets rose to \$3.7 trillion in the December quarter. According to APRA, contributions into superannuation in the December 2023 quarter reached \$42.2 billion and increased by 11.7% to \$172.6 billion over the year to December 2023.

Based on Atchison Consultant's forecast model, over the coming 10 years, total super assets are expected to grow to \$6.2 trillion in 2033.

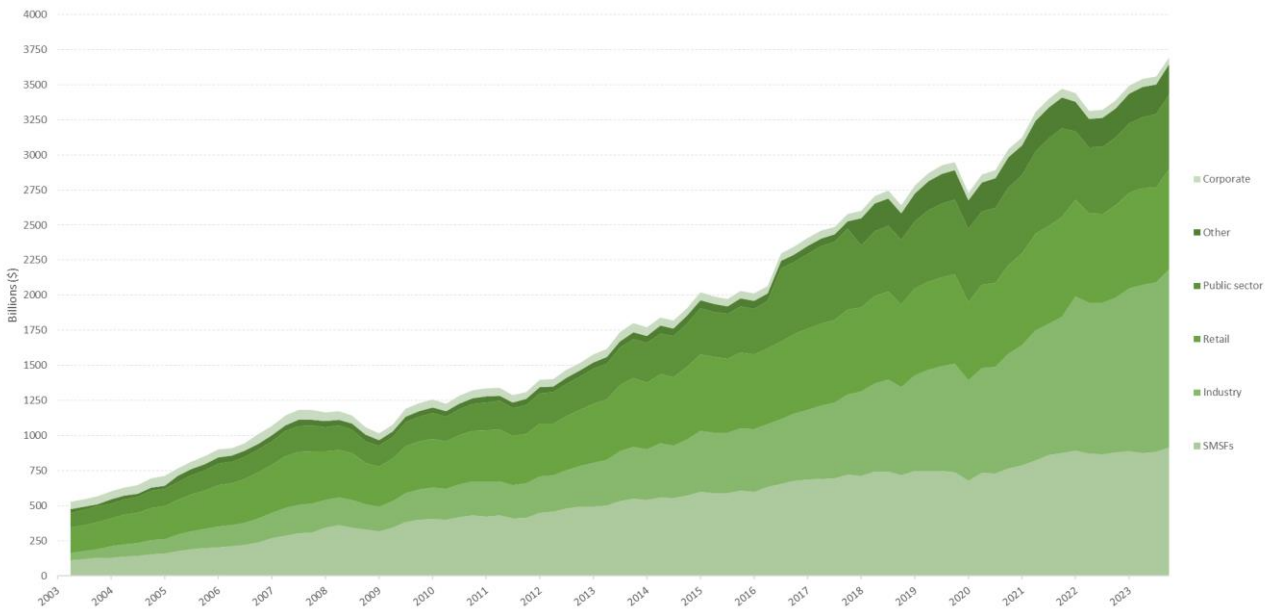
Superannuation Industry Sectors

In December 2023, Industry funds held the largest proportion of superannuation assets, accounting for 34.4% of total assets, and self-managed funds followed with 24.7% of total superannuation assets. Retail funds held the third-largest portion, representing 19.3%.

All assets showed upward trends over the December 2023 quarter except Corporate, as evident in Figure 1.

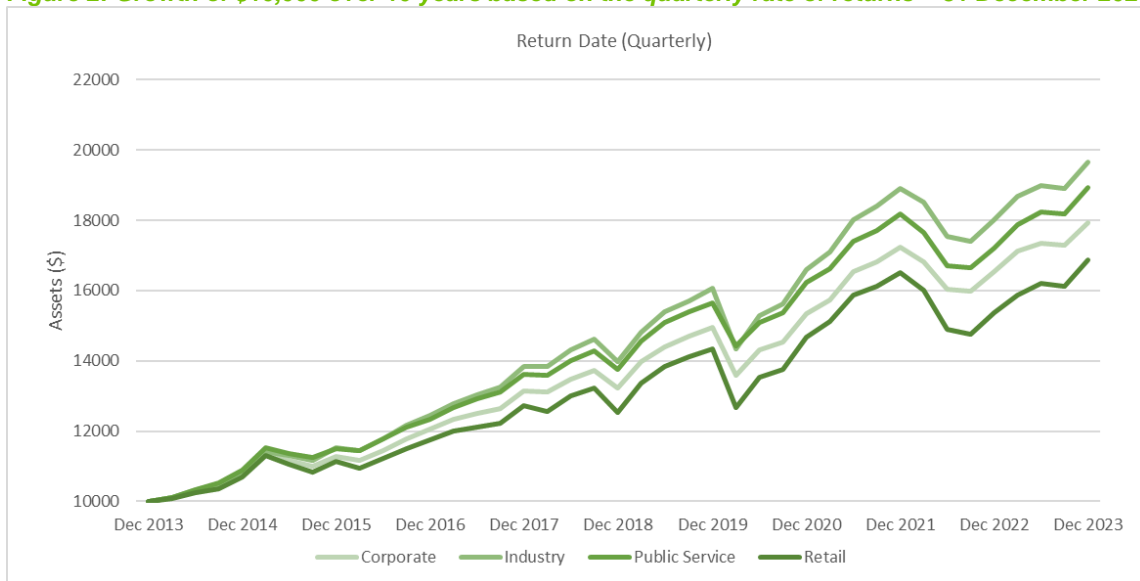
Figure 1 also provides a breakdown of the superannuation industry over time.

Figure 1: Superannuation Assets by Segment – 31 December 2023



Source: APRA, Atchison Consultants

Figure 2: Growth of \$10,000 over 10 years based on the quarterly rate of returns – 31 December 2023



Source: APRA, Atchison Consultants

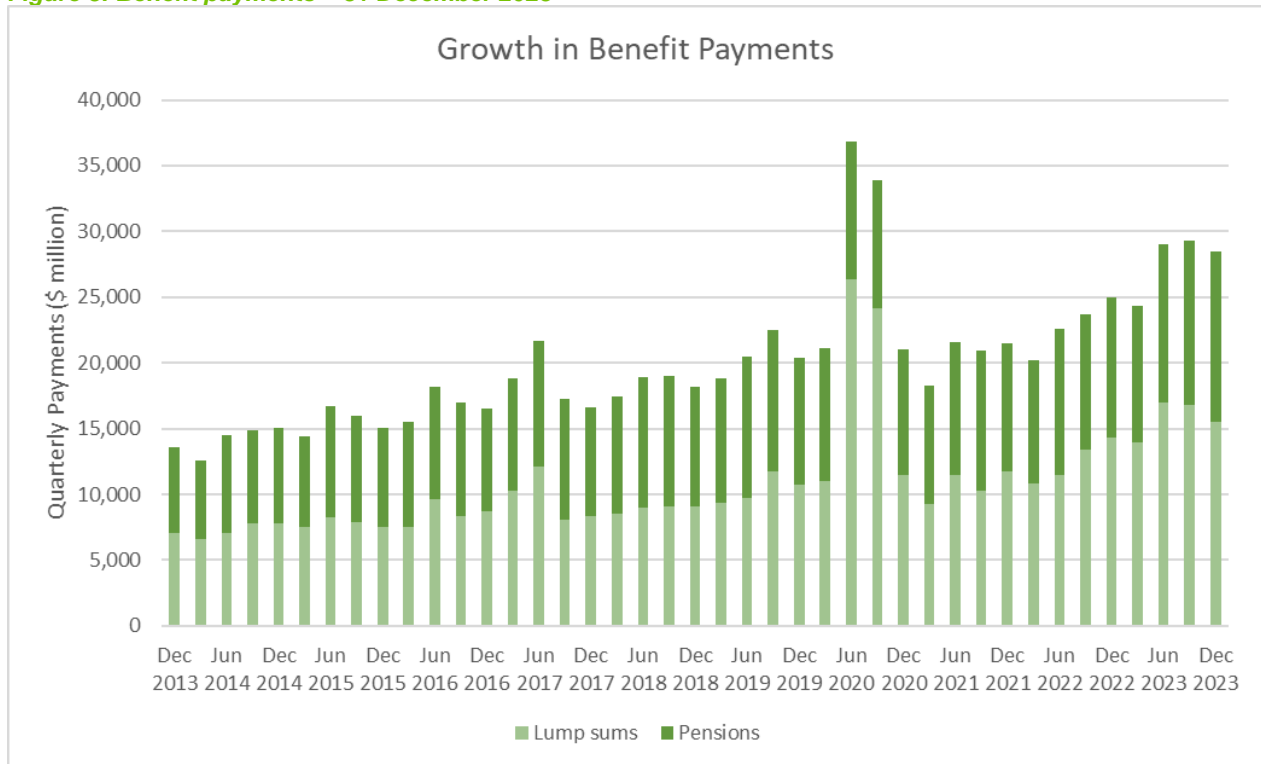
In the December quarter, all superannuation fund categories saw an increase in their rate of return, driven by robust gains in the equity market. This uptrend was fuelled by easing inflation and the potential of lower interest rates heading into 2024. Figure 2 shows the rate of return over the last 10 years, where industry and public sector funds have produced stronger returns over the 10-year period relative to retail and corporate funds. This reflects member sentiment but also the difficulty retail funds have faced over the last 10 years in gaining and returning to members when competing against not-for-profit funds.

Asset Flows

Contributions to APRA-regulated superannuation (excluding self-managed funds) amounted to \$42.2 billion in the December 2023 quarter, a 11.7% increase over the year compared to December 2022.

As shown in Figure 3, \$28.4 billion was paid in benefit payments in the December quarter, representing a -3.0% decrease over the quarter. Benefit payments have increased 21.5% over the year ending in December 2023, driven by a 26.3% increase in lump sum payments.

Figure 3: Benefit payments – 31 December 2023



Source: APRA, Atchison Consultants

Asset Allocations

Note that the December 2023 edition of the Quarterly Superannuation Statistics no longer contains data that was reported under Reporting Standard SRS 530.0 Investments as this reporting standards have been revoked and Reporting Standard SRS 533.0 Asset Allocation as APRA has exempt entities SRS 533.0 in respect of MySuper products with a single diversified investment strategy and replaced by the enhanced reporting under Reporting Standard SRS 550.0 Asset Allocation.

The Quarterly Superannuation Industry Publication will include equivalent tables compiled from the enhanced data from the December 2023 edition to be published in April 2024.

Atchison

Atchison Consultants

Level 4, 125 Flinders Lane,
Melbourne ,Vic 3000

Level 3, 63 York Street,
Sydney, NSW 2000

P: +61 (0) 3 9642 3835
enquiries@atchison.com.au
www.atchison.com.au

ABN: 58 097 703 047
AFSL Number: 230846

To obtain further information,
please contact:

Jake Jodlowski

Principal

P: +61 3 9642 3835

E: jake.jodlowski@atchison.com.au

Ye Peng

Investment and Data Analyst

P: +61 3 9642 3835

E: ye.peng@atchison.com.au