

Australian Expatriate Superannuation Fund (AESF)

Member Outcomes Assessment
For the year ended 30 June 2023

28 February 2024

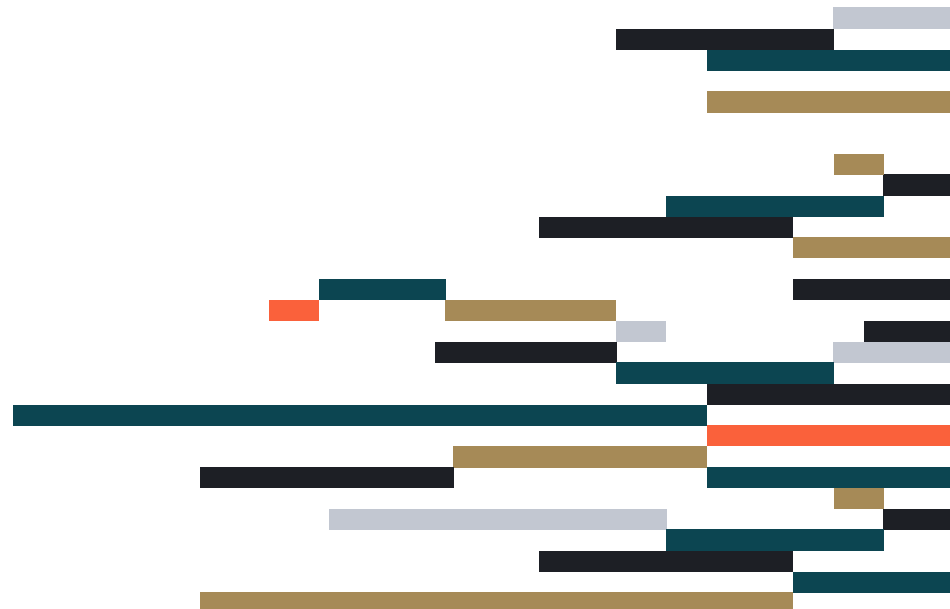


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Introduction

Introduction

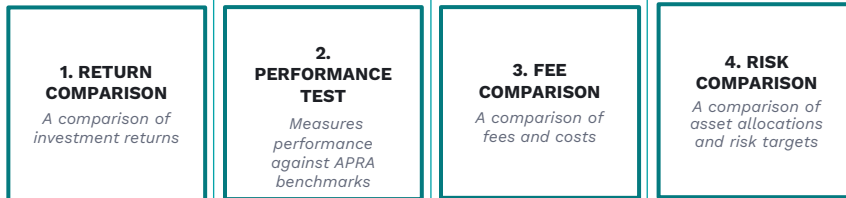
What is the Member Outcomes Assessment?

This document will focus on the key outcomes found within the assessment in relation to Australia Expatriate Superannuation Fund ('AESF'). It analyses how AESF's products compare to similar products and whether these products are serving the financial interests of the members. The document will present the final conclusions and summary, before going into detail on steps 1 and 2 of the assessment.

All data is reported in accordance with APRA requirements. This assessment was undertaken in February 2024, and is relevant for the financial year ended 30 June 2023

Approach for this assessment

Step 1: Measure and compare products



Step 2: Assess product appropriateness

Assessment of product appropriateness against key factors that can affect superannuation

Section 52 (11)

1. Options, benefits and facilities
2. Investment strategy
3. Insurance strategy and fees

SPS 515

4. Scale
5. Operating costs
6. Basis for setting fees

Step 3: Publish determination

A publication with a determination for each product is required to assess whether the financial interests of the beneficiaries who hold the product are being promoted.



Executive Summary

Product Determination

The Trustee has determined that it is promoting the financial interests of the beneficiaries of its **Accumulation product** and that of its **Pension product** on the basis that:

- AESF is unique, being Australia's only public offer retail superannuation fund that is listed as a Qualifying Recognised Overseas Pension Scheme (QROPS) on the HMRC ROPS list, allowing expats to transfer their UK Pension to Australia;
- For fees and costs, on balance the administration fees for AESF at a product level are assessed as being broadly in line with peer fund medians when AESF's single platform fee structure and the unique nature of AESF (with the added administrative complexity of expatriate pension fund holders) is considered;
- The majority of AESF's investment returns show strong performance for the in-scope investment options over all measured periods;
- Risk-adjusted returns are in line with peer fund medians for the majority of investment options; and
- A majority of the objective assessment factors, being AESF's options, benefits and facilities, investment strategy, operating costs, scale and the basis for setting fees, are considered appropriate for AESF's members and do not inappropriately erode their retirement balances.



AESF Overview

AESF Overview

Australian Expatriate Super Fund ('AESF') provides a simple solution for members to transfer their UK Pension to Australia, offering superannuation via a 'wrap-style' account. AESF is Australia's only public offer retail superannuation fund that is listed as a Qualifying Recognised Overseas Pension Scheme (QROPS) on the HMRC ROPS list. AESF offers members the ability to contribute to continue to build their retirement portfolio or manage and receive income from their pension.

AESF offers the following Member Accounts:

- Personal Super (Accumulation, Transition to Retirement and Pension)
- Super – QROPS (Accumulation, Transition to Retirement and Pension)

Investments are managed through a Cash Hub, which gives access to a wide range of investment options from leading global fund managers. Investors have access to an extensive investment menu comprising of:

- Cash and foreign exchange currency
- Managed Funds
- Exchange Traded Funds ('ETFs') in Australian, UK and US domiciles
- Commodities investments

For the purposes of this assessment, the analysis is focused on the 10 AESF investment options with the highest concentration of assets invested in them at 30 June 2023.



Comparative Assessment

Fees & Costs Comparison

For the purpose of this assessment, only AESF's administration fees are compared to peer fund median administration fees. As investment management fees are charged by the individual investment managers and deducted from the returns, these vary by the individual managed fund or ETF investment option selected and are not comparable to benchmarks based on pooled investment structures.

It is noted that this administration fee comparison is based on the investment options that are in scope for this assessment, being the 10 AESF investment options with the highest concentration of assets invested in them at 30 June 2023. These 10 investment options are all Australian-based investment options, so the applicable administration fee (0.60% p.a.) is the same across all investment options but modelled on different account balances (\$50,000 \$100,000 and \$250,000). However, a different AESF administration fee is charged to members who invest in non-Australian investment options – these fees are detailed on page 21 of this report.

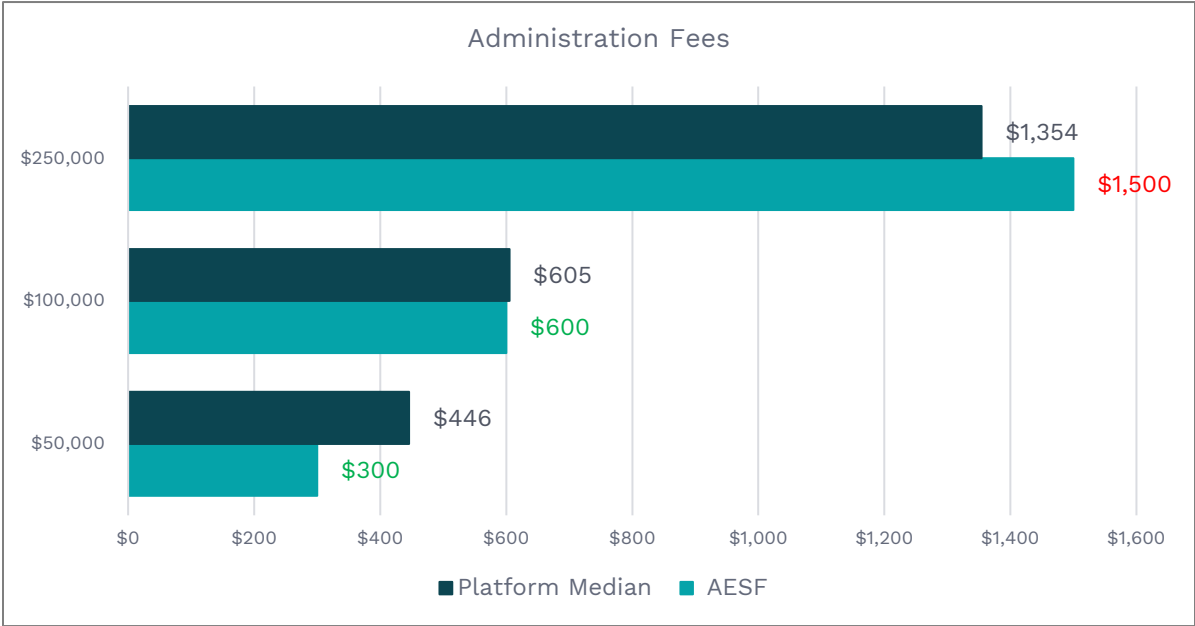
The AESF administration fees for Personal Super Accumulation and Pension members is compared to the peer fund median administration fee which includes AESF and 19 other peer Platform funds.

AESF's administration fees are lower cost when administration fees are calculated on \$50,000 and \$100,000 balances. However, they are higher against the peer median on a \$250,000 balance.

However, it is noted that AESF only charges an all-inclusive administration fee to members (as modelled on the following graphs) rather than the typical fee structure of a wrap platform which would ordinarily charge both an administration fee, as well as a platform investment fee.

On balance, the Trustee has determined it is promoting the financial interests of the beneficiaries of its Accumulation product and its Pension product as the administration fees for AESF at a product level are largely in line with peer fund medians when the single platform fee structure is considered. Consideration is also given to the unique nature of AESF which caters for the added administrative complexity of expatriate pension fund holders.

Fees & Costs Comparison: Personal Super



Source: Peer median is derived from 20 similar platform products, which includes 19 Peers and AESF. Administration fees are inclusive of any cost of recovery fees or Operational Risk Financial Requirement reserves.

Investment Return Comparison

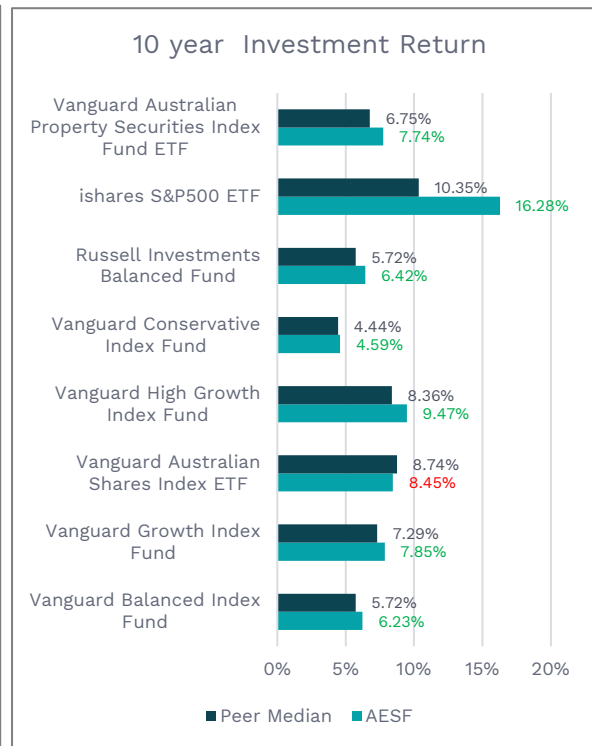
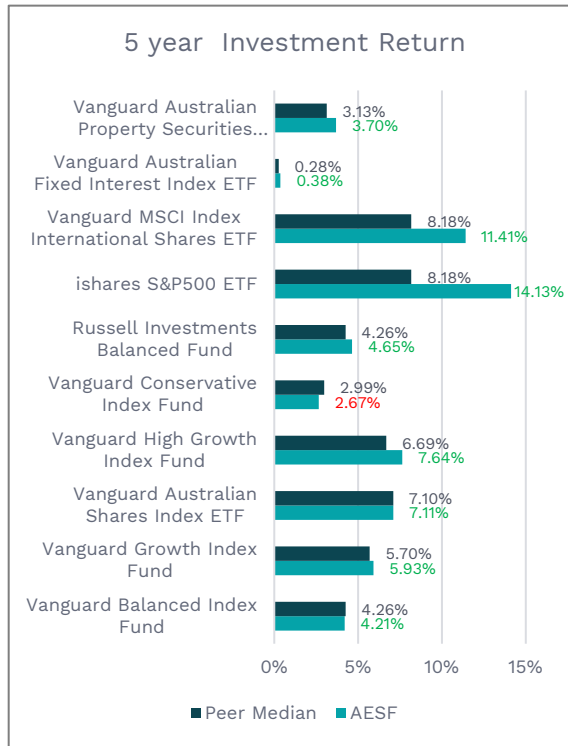
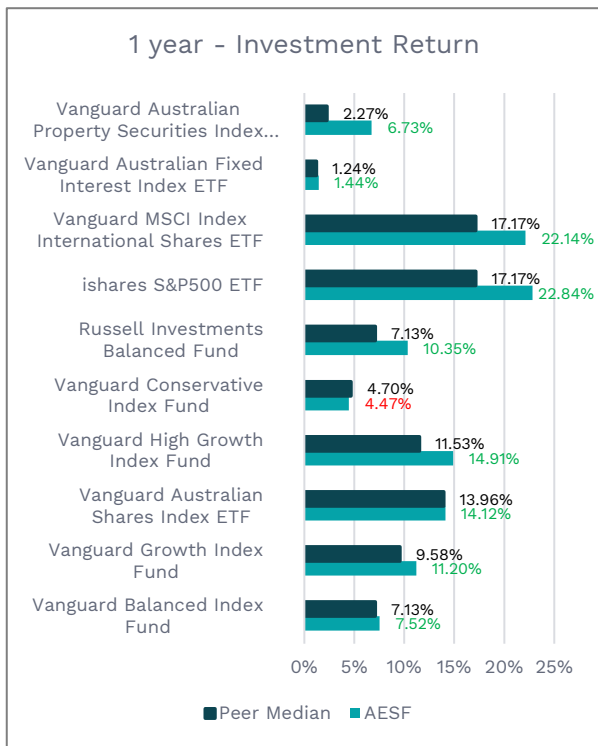
AESF's net investment returns for the investment options that have been assessed in this report are illustrated in the graphs contained on page 13.

It is noted that the medians depicted in the following graphs are based on pooled investment options, with the relevant peer fund median selected based on the closest corresponding asset class to the relevant AESF investment option. Although not a perfect comparison, these medians represent a suitable proxy for assessing the performance of AESF's underlying investment options.

Over the one-year and five-year periods to 30 June 2023, all in scope AESF investment options outperformed their peer median, except for the Vanguard Conservative Index Fund which narrowly underperformed. Over the ten-year period to 30 June 2023, all in scope AESF investment options outperformed their peer fund median, except the Vanguard Australian Shares Index ETF which underperformed narrowly.

On balance, the Trustee has determined it is promoting the financial interests of the beneficiaries as the investment returns show strong performance for the majority of in scope investment options over all measured periods.

Investment Return Comparison



Choice Investment Risk Comparison

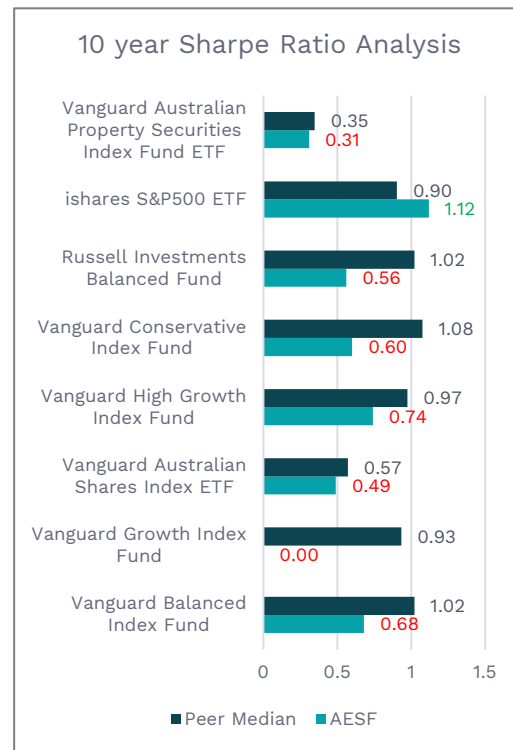
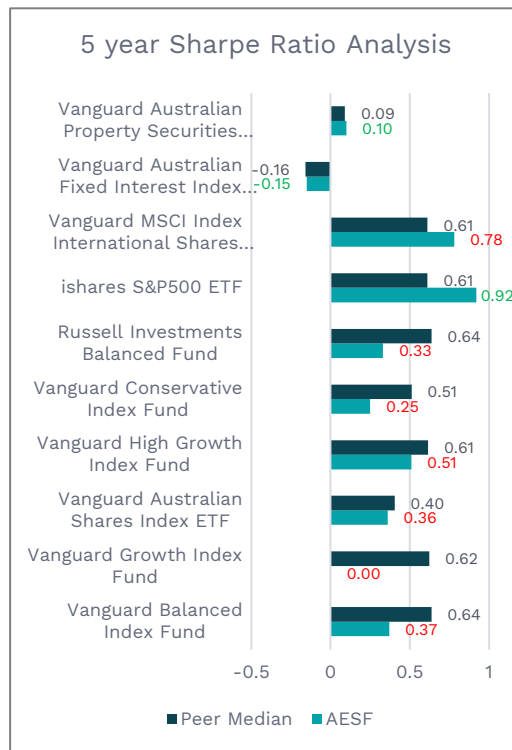
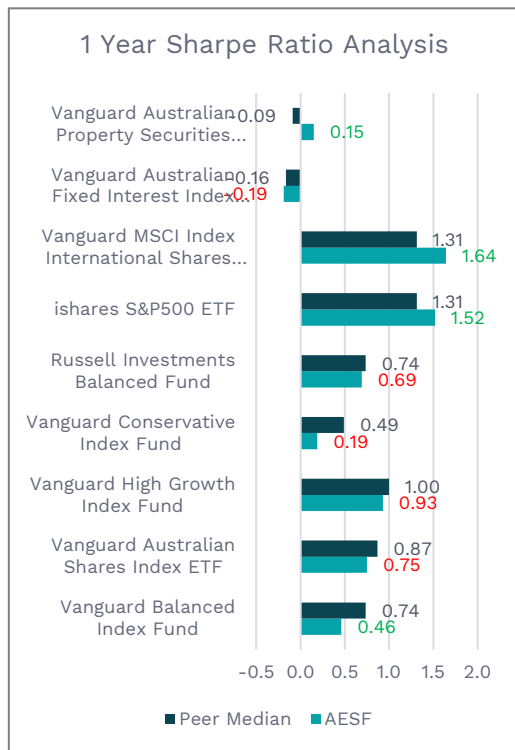
In the graphs on the following pages, we measure the performance of AESF's top holdings after adjusting for risk comparing to the peer fund median. To do this, we apply a Sharpe ratio calculation which is a standardised measure of risk-adjusted returns. The higher the ratio, the greater the investment return relative to the amount of risk taken, representing the additional amount of return that an investor receives per unit of increase in risk.

It is noted that the medians depicted in the following graphs are based on pooled investment options, with the relevant peer fund median selected based on the closest corresponding asset class to the relevant AESF investment option. Although not a perfect comparison, these medians represent a suitable proxy for assessing the risk-adjusted performance of AESF's underlying investment options.

AESF's Sharpe ratios are lower than the peer median for most of the in scope investment options over all measured periods to 30 June 2023, although for the majority any underperformance against the peer median is marginal.

On balance, the Trustee has determined it is promoting the financial interests of its beneficiaries as the investment risk return for the options over all periods are generally in line with peer medians.

Investment Risk Comparison





Product Appropriateness Assessment

OPTIONS, FACILITIES & BENEFITS

AESF offers a range of services and products to all members in order to assist them with engaging with their superannuation to optimise their retirement outcomes.

Due to the complexity of the investment needs of their clients transferring pension schemes across global regions AESF has an expert support team to assist with the complexities and handling of the transfer processes. AESF also offers a full transfer administration process service.

AESF's services include:

- Providing QROPS expertise, and pension transfer services to members who want to transfer their pension money from the UK to Australia. Their team have extensive knowledge of the UK pension industry and Australian superannuation which has allowed them to bridge the knowledge gap between both jurisdictions to our existing and prospective members.
- Providing investment options in multi-currency including cash investment options in foreign currency. this provides our members the added flexibility to take advantage of the best currency rates.

The Trustee has determined that the options, benefits and facilities offered under the product are appropriate to members.

INVESTMENT STRATEGY

AESF offer a 'wrap-style' account that gives members access to an investment menu of managed funds and exchange-traded funds from a selected list of investment managers. Members have access to investments in three domiciles: UK, US and Australia. Members also have available the currency and hedging mechanisms available to invest across multiple domiciles. This is appropriate as AESF provides a solution to transfer UK Pensions to Australian superannuation.

AESF's investment options cover international shares, Australian shares, international fixed income, Australian fixed income, property, infrastructure, cash, commodities and diversified options with varying growth asset allocations.

The appropriateness of the investment offering is monitored and reviewed on a quarterly basis with annual additional testing via asset consultants who check all managed funds against their determined benchmarks which provide a recommendation if any changes are required.

A majority of AESF's members' investment portfolios have been prepared with guidance from a financial adviser who developed a diverse portfolio of investments tailored to suit each members':

- personal circumstances;
- personal investment objectives and long-term goals;
- risk tolerance; and
- expected investment timeframe

Based on the above, the Trustee has determined that the investment strategy for the product is appropriate for members.

INSURANCE STRATEGY & FEES

AESF maintains a legacy insurance policy that is now closed to new members. The insurance cover is for total and permanent disability ('TPD') and income protection through Yourcover (Lloyds). No death cover is provided through Yourcover.

Based on our analysis, the Trustee has determined that that the insurance strategy for the product is appropriate for AESF's members, and that there is no inappropriate erosion of members' retirements income due to the impact of insurance premiums.

SCALE

AESF had 1,183 members with approximately \$254 million in funds under management as at 30 June 2023. While these figures are indicative of AESFs relatively small size in the industry, it is anticipated that AESF will continue to steadily grow and achieve greater scale benefits based on its growth during FY23:

- Funds Under Management ('FUM') grew by 49.39%, compared to the industry median of 10.10%
- Net members' benefits flows of \$70.2M, compared to the industry median of \$9.07M
- Number of member accounts grew by 40.33%, compared to the industry median of 1.157%
- Net rollovers into AESF of \$95.1M, compared to the industry median of -\$29.9M
- Net members' benefit outflow ratio of 30.68%, compared to the industry median of 90.65%

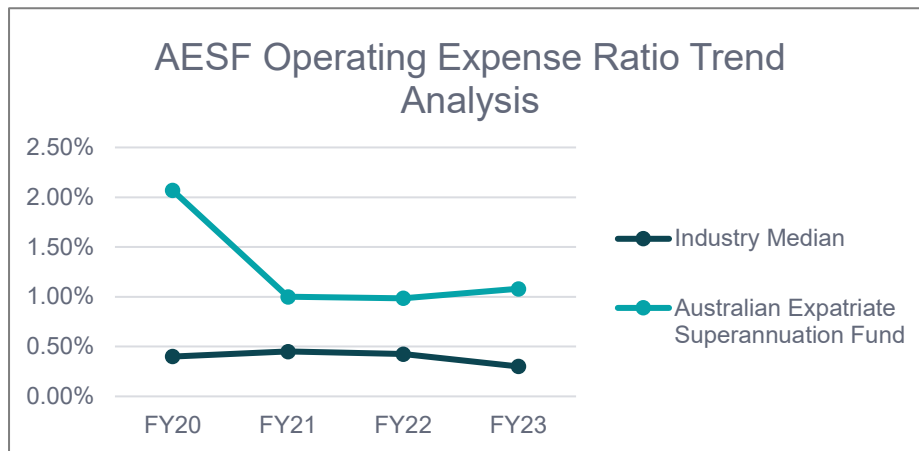
From the above, it is clear that AESF's growth rate is positive and significantly greater than the industry median.

There is also an ongoing ability to access resources at scale as a result of AESF's operating model leveraging outsourced administrator and an outsourced trustee.

It is concluded that members have not been disadvantaged due to the scale of, and within, the Trustee's business operations but that AESF would benefit from a continued focus on growth.

OPERATING COSTS

AESF's operating expense to asset ratio trend is shown in the graph below compared to the industry fund median (derived from APRA data). It is noted that while AESF's operating expense ratio was higher than that of the median fund in FY23, it has remained steady between FY21 and FY23 and only slightly increased over FY23. The median fund operating expense ratio has decreased over the period.



The Trustee notes that the operating costs are reasonable given the added administrative complexity of a QROPS registered fund. As such the operating costs are considered appropriate for AESF's members and do not inappropriately erode their retirement balances.

BASIS FOR SETTING FEES

The basis for setting fees is considered appropriate for members and promotes their financial interests, while not inappropriately eroding retirement balances.

The administration fee is fixed rate dependant on the type of account and whether investments are held in non-Australian domiciled options. This reflects the higher cost of administering accounts with non AUD holdings and Qualifying Recognised Overseas Pension Scheme ('QROPS').

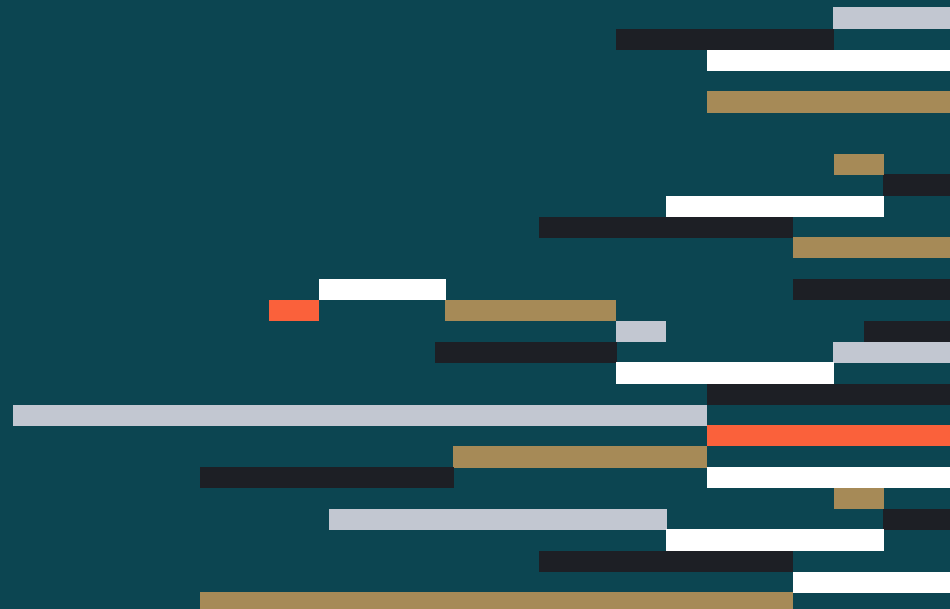
AESF's administration Fee is deducted from member accounts at month end based on the account balance and is based on the full account balance which includes both cash and investments. This ensures that the cost of maintaining a superannuation account is smoothed over the course of a year rather than members incurring a large impact to their balance at once. Hence, retirement balances are not eroded.

The basis for setting fees is considered appropriate for members and promotes their financial interests, while not inappropriately eroding retirement balances.

Asset-based Admin Fees	
Type of Account	Rate
Super (AUD Only Investment)	0.60% p.a.
Super (with non-AUD Investment)	0.80% p.a.
Super (QROPS AUD Investment)	0.80% p.a.
Super (QROPS non-AUD Investment)	1.00% p.a.

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