

Australian Practical Superannuation

Member Outcomes Assessment
For the year ended 30 June 2022

28th February 2023



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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 Australian Practical Superannuation ('AusPrac'). It analyses how AusPrac'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.

The comparative analysis for AusPrac's Accumulation and Pension products is contained in separate sections within this report, however the assessment of product appropriateness applies across both the Accumulation and Pension products.

All data is reported in accordance with APRA requirements. This assessment was undertaken in February 2023, and is relevant for the financial year ended 30 June 2022.

Approach for this assessment

Step 1: Measure and compare products



1. Return comparison
A comparison of returns



2. Fee comparison
A comparison of fees



3. Risk comparison
A comparison of investment risk

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 Determinations

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

- Total fees (which includes both administration and investment fees) at a product level are less expensive than the peer fund median for FY22 across most modelled balance points for a majority of investment options.
- For investment returns, AusPrac's investment options performed above or in line with the relevant peer fund medians across three year and five year timeframes;
- Risk-adjusted returns are above or in line with peer fund medians for a majority of investment options across the three year and five year time horizons; and
- The objective assessment factors, being AusPrac's options, benefits and facilities, investment strategy, insurance strategy and fees, operating costs and the basis for setting fees, are considered appropriate for AusPrac's members and do not inappropriately erode their retirement balances.

The Trustee notes, however, that there is an opportunity for improvement in the relative competitiveness of administration fees as a result of the recent increase in scale of the Fund through merger activity as this will assist to drive down costs borne by members.

AusPrac Overview



AusPrac Overview

AusPrac offers both Choice Accumulation and Pension products, where members have the option of investing in a range of investments including pre-mixed pooled investments and a direct investments platform. Through the direct investment platform, members can invest in a Cash Hub, Managed Funds, Managed Account Model Portfolios, ASX Listed Securities and Term Deposits.

AusPrac offers the following five pooled investment options in accumulation and pension for members to invest in. For the purposes of this Member Outcomes Assessment, the focus has been on assessing the comparative fees, investment performance and investment risk of these pooled investment options.

Cash Option

50/50 Option

**Passive
Balanced
Option**

**High Growth
Option**

**Passive High
Growth
Option**

Accumulation Comparative Assessment



Fees & Costs Comparison: Accumulation Pooled Investment Options

Total Fees

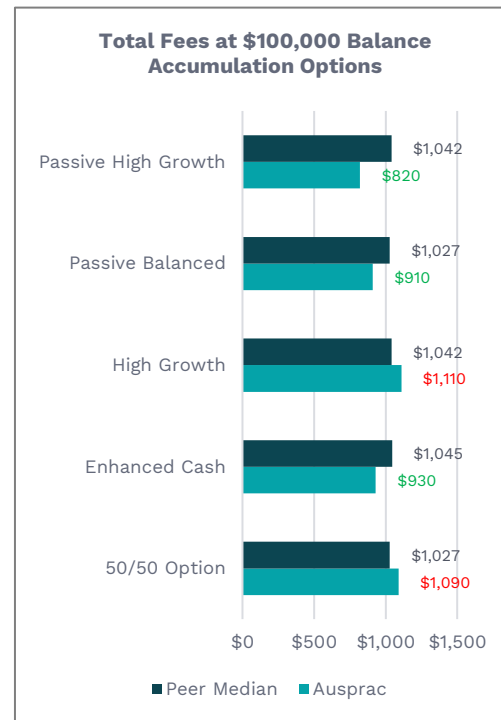
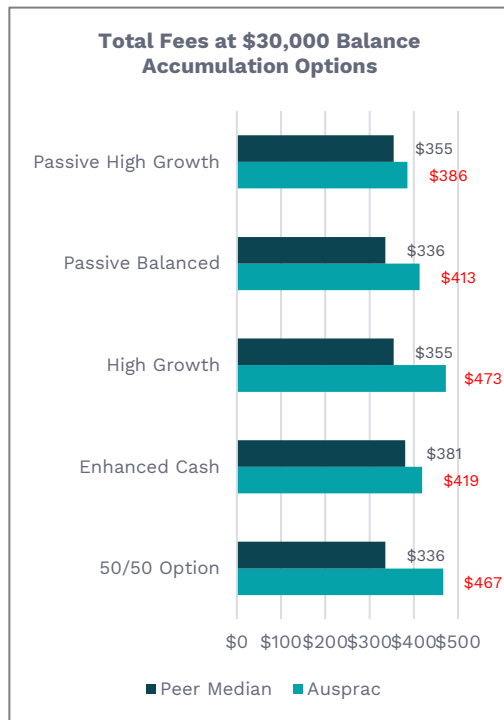
AusPrac's total fees (administration fee plus investment fees) for Accumulation members are compared to peer fund median fees in the charts following this slide. AusPrac's investment options are lower cost than the peer fund median when total fees are calculated on a \$100,000 balance and generally aligned to the peer fund median when calculated on a \$50,000 account balance. However, the Enhanced Cash investment option and 50/50 option are higher cost across all account balances and all investment options are higher cost at the \$30,000 account balance point than the relevant peer fund medians.

Administration Fees

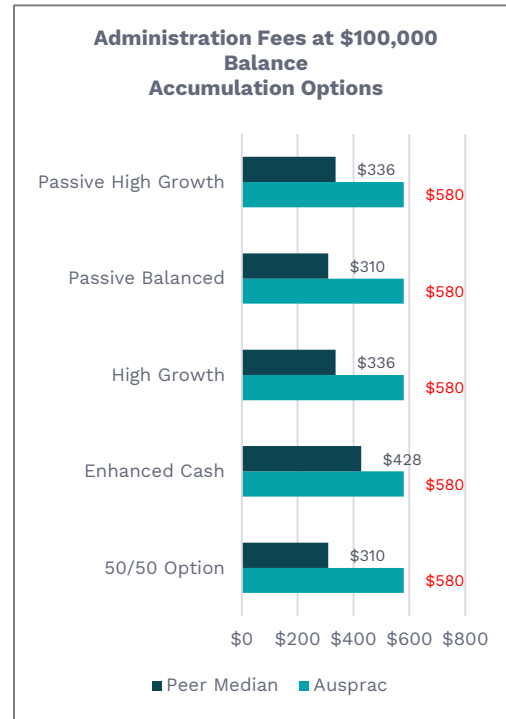
On page 12, AusPrac's Accumulation administration fees are compared to peer fund median administration fees. AusPrac is higher cost across all investment options when administration fees are calculated on \$30,000, \$50,000 and \$100,000 balances.

On balance, the Trustee has determined it is promoting the financial interests of the beneficiaries of its Accumulation product as the total fees for most of the AusPrac options are less expensive than the peer fund median. The Trustee notes that improvement on administration fees will make it more competitive with peers.

Fees & Costs Comparison: Total Fees – Accumulation



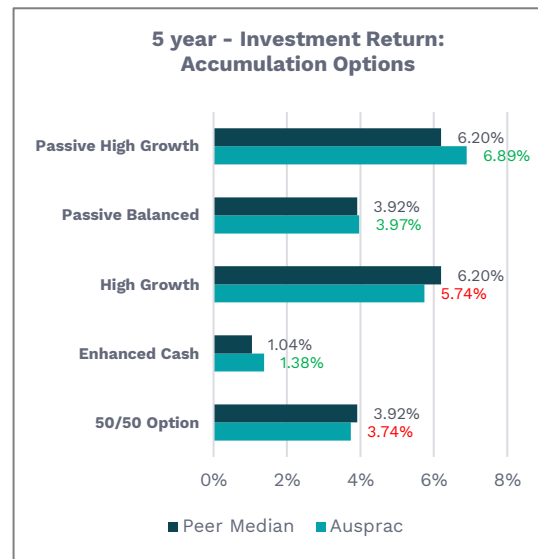
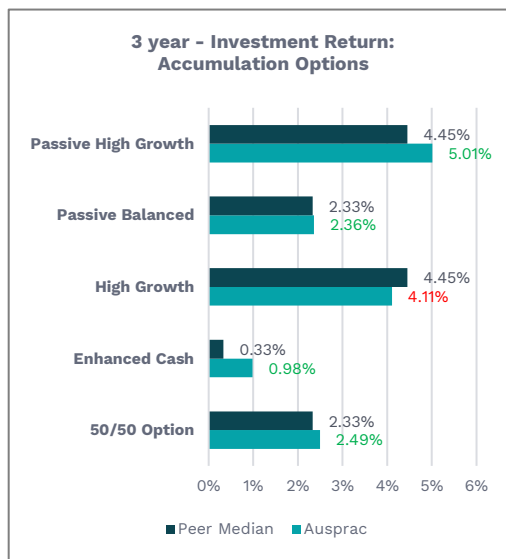
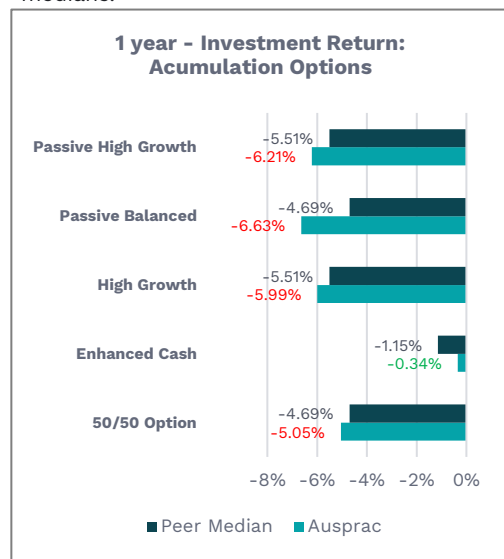
Fees & Costs Comparison: Administration Fees – Accumulation Pooled Investment Options



Investment Return Comparison: Accumulation – Pooled Investment Options

The graphs below detail the investment return of AusPrac's investment options for Accumulation members. These graphs show that the net investment returns over a one year period to 30 June 2022 has underperformed against the peer fund median. However, the majority of investment options across the three year period and five year period have outperformed against peer medium, with the exception of High Growth for three year and five year periods and 50/50 option over five year period.

As superannuation is a long term investment, longer dated performance is considered more significant. The Trustee has determined the financial interests of the members are being promoted as the majority of investment returns across the three year and five year timeframes are above or in line with relevant peer medians.

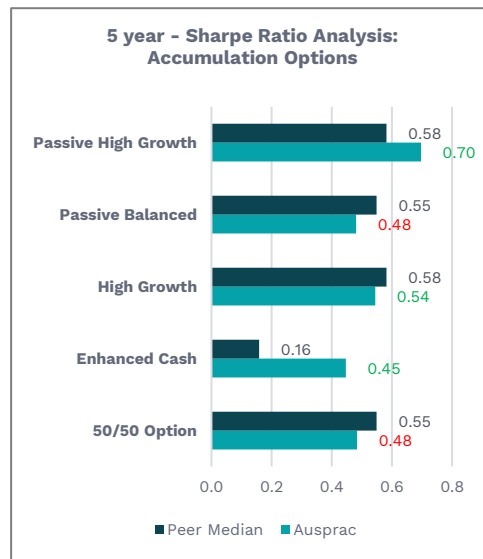
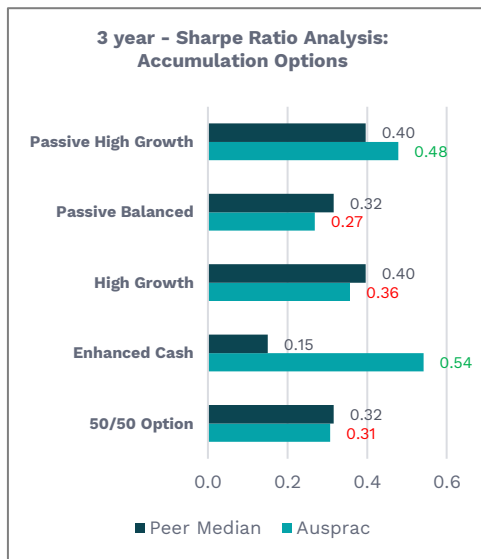
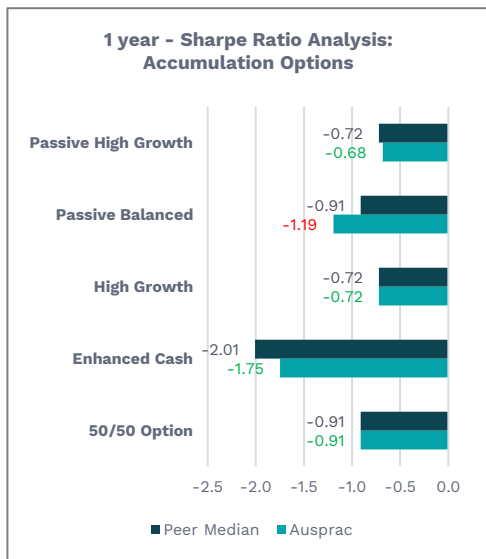


Investment Risk Comparison: Accumulation- Pooled Investment Options

In the following graphs, we measure the performance of AusPrac's Accumulation investment options after adjusting for risk and comparing against 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.

AusPrac's Sharpe ratios over one, three and five years are over or effectively in line with peer fund medians for all of the investment options. However, Passive Balanced investment option is lower than the peer fund median in all periods measured.

As superannuation is a long term investment, longer dated performance is considered more significant. On balance, the Trustee has determined the financial interests of the members are being promoted as the majority of risk-adjusted returns are in line with or above peer fund medians over the three year and five year timeframes.



Pension Comparative Assessment



Fees & Costs Comparison: Pension-Pooled Investment Options

Total Fees

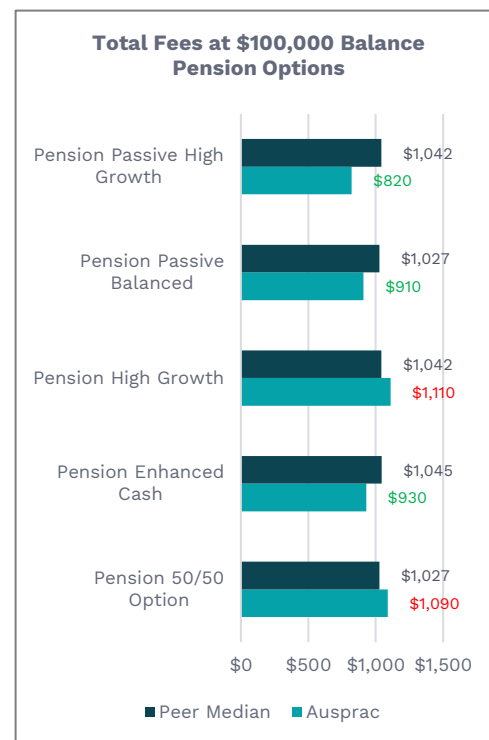
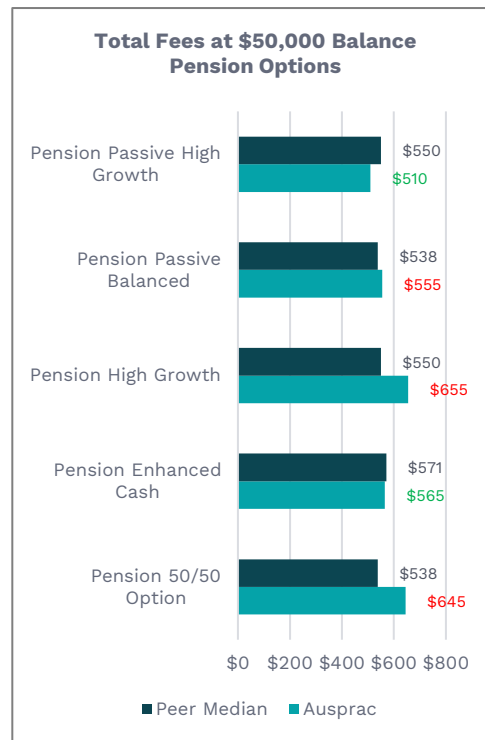
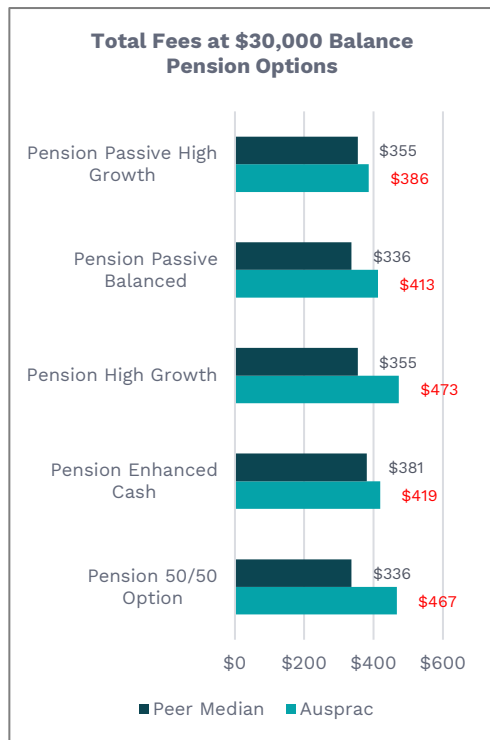
AusPrac's total fees (administration fee plus investment fees) for Pension members are compared to peer fund median fees in the charts on the following page. AusPrac's total fees are higher cost across all options when calculated on a \$30,000 balance, however only 50% of total fees are more expensive when calculated against the peer median, across a \$50,000 balance. Total fees are lower when calculated on \$100,000 balance except for the 50/50 investment option and High Growth option which are higher cost.

Administration Fees

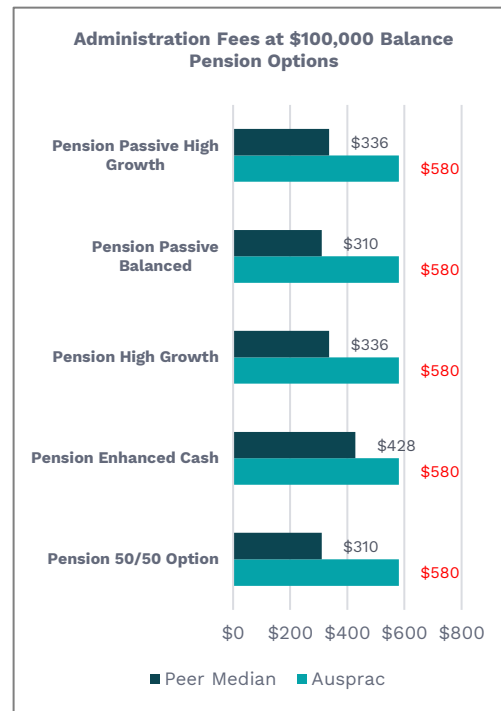
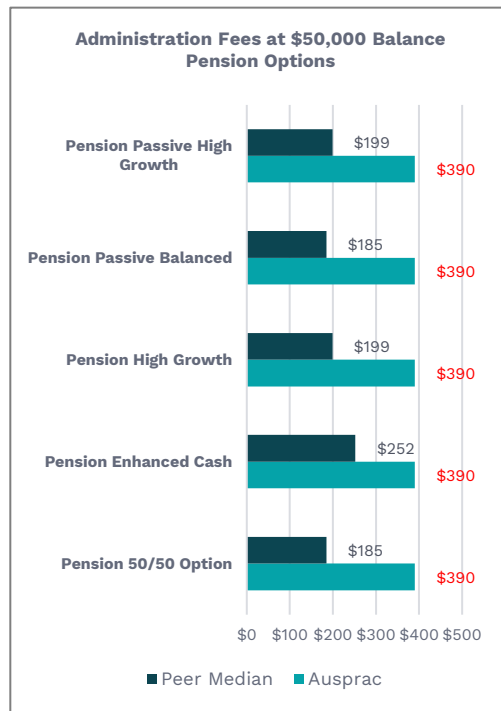
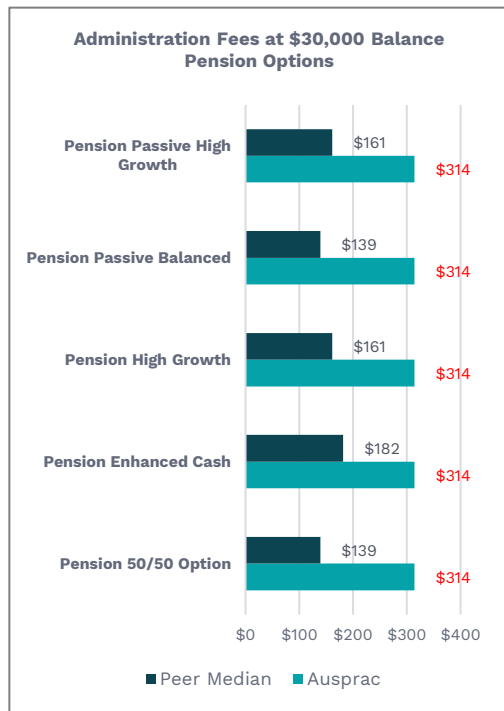
On page 19, AusPrac's Pension administration fees have been compared to peer fund median administration fees. AusPrac is higher cost across a majority of investment options when administration fees are calculated on a \$30,000, \$50,000 and \$100,000 balances.

On balance, the Trustee has determined it is not promoting the financial interests of the beneficiaries of its Accumulation product as the total fees for most of the AusPrac options at higher balances at a product level are less expensive than the peer fund median. The Trustee notes that improvement on administration fees will make it more competitive with peers.

Fees & Costs Comparison: Pension-Pooled Investment Options



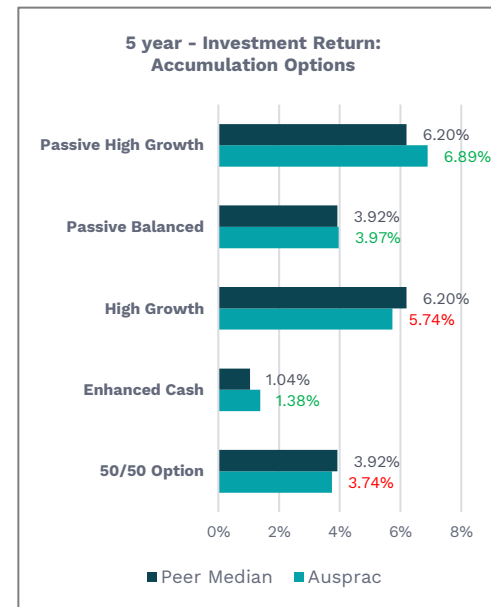
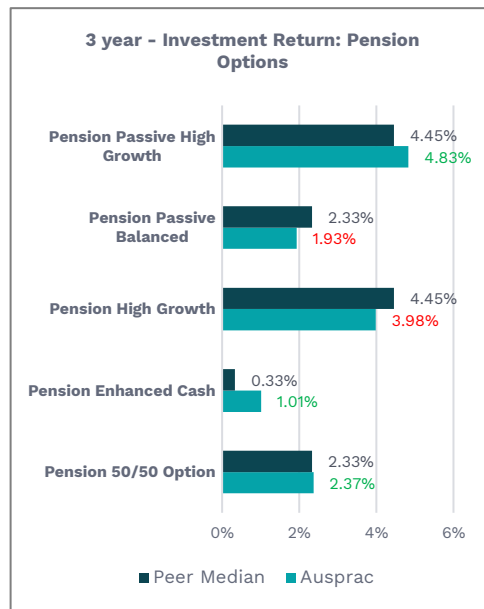
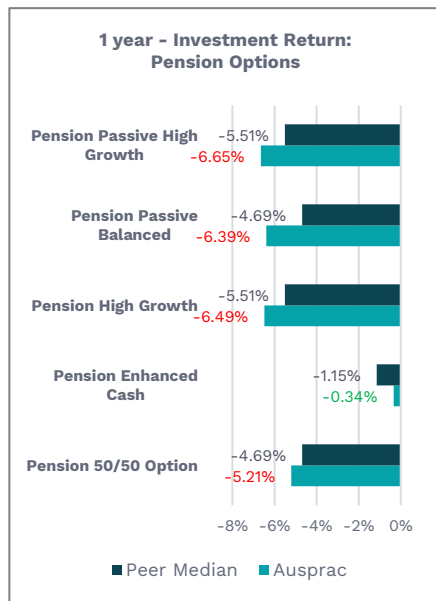
Fees & Costs Comparison: Pension-Pooled Investment Options



Investment Return Comparison: Pension-Pooled Investment Options

The graphs below detail the investment return of AusPrac's investment options for Pension members. These graphs show that the net investment returns over a one year period to 30 June 2022 has underperformed against the peer fund median. However, the majority of investment options across the three year period and five year period have outperformed against peer medium, with the exception of Pension High Growth and Pension Passive Balanced for three year. Over five year period High Growth and 50/50 option also underperformed against the peer median.

As superannuation is a long term investment, longer dated performance is considered more significant. The Trustee has determined the financial interests of the members are being promoted as the majority of investment returns across the three year and five year timeframes are above or in line with relevant peer medians.

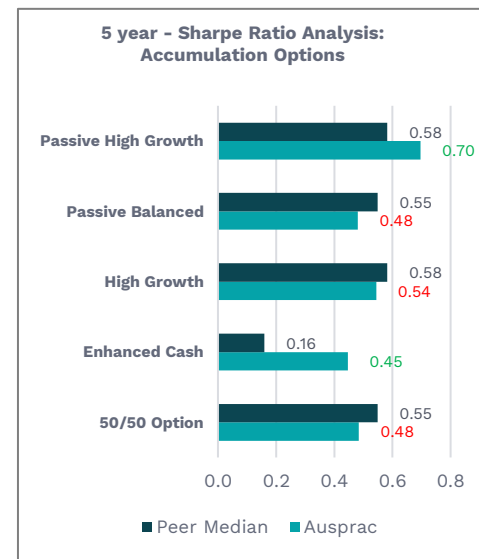
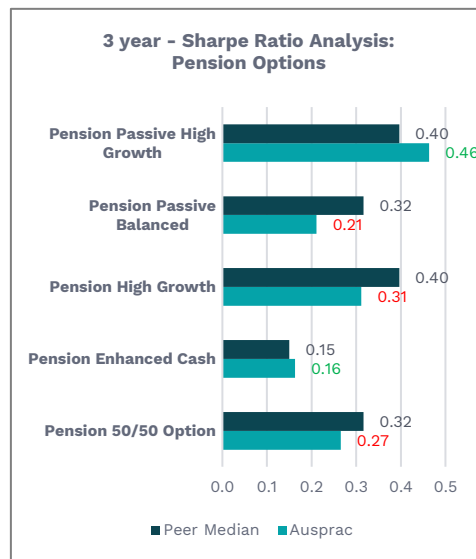
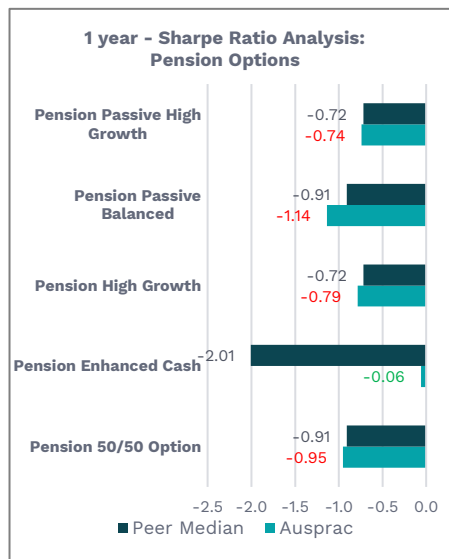


Investment Risk Comparison: Pension-Pooled Investment Options

In the following graphs, we measure the performance of AusPrac's Pension investment options after adjusting for risk and comparing against 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.

AusPrac's Sharpe ratios over one, three and five years have mostly underperformed against the peer fund medians for all investment options, except for Pension Enhanced Cash over one, three and five year periods and Passive High Growth across three and five year periods. It is noted that there is an opportunity for improvement on the one year Sharpe ratios against peer medians for these options.

As superannuation is a long term investment, longer dated performance is considered more significant. On balance, the Trustee has determined the financial interests of the members are being promoted as the majority of risk-adjusted returns are in line with peer fund medians over the three year and five year timeframes.



Direct Investments Platform – Full Menu

Members have also access to full category investment menu called Full Menu.

Fees and Costs Comparison on Full Menu

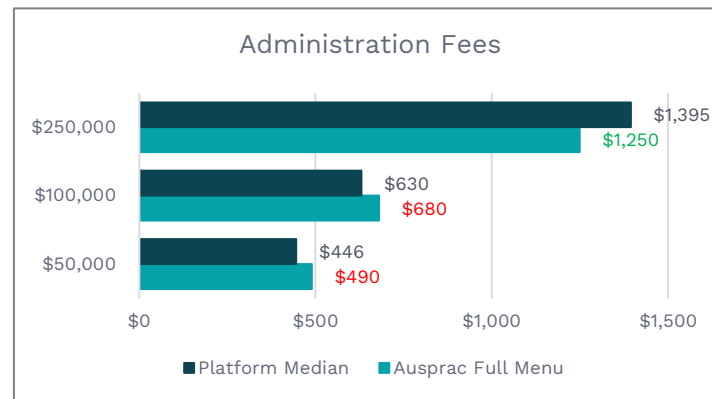
The graph represents a fee comparison of full menu administration fees to other similar products in the industry. As investment management fees are charged by the individual investment managers and deducted from the returns, these vary by the individual managed fund or ETF investment option selected and are not comparable to benchmarks based on pooled investment structures.

AusPrac Full Menu Administration Fees are lower cost at a product level when administration fees are calculated on \$50,000, \$100,000 and \$250,000 balances.

On balance, the Trustee has determined it is promoting the financial interest of the beneficiaries of its ‘Full Menu’ product as the administration fees are less expensive than the peer fund median.

Investment Returns and Risk comparison on Full Menu

Investments made through the Full Menu form part of the self-directed investment strategy. Members choose and manage their own investments or with the guidance from their financial advisor. The level of risk will vary depending on personal circumstances, expected investment timeframe, risk tolerance of the members, personal investment objectives and long-term goals. The Trustee is comfortable that a sufficient range of direct investments is available via the Full Menu to ensure that members and their financial adviser are better able to make appropriate decisions. The Trustee monitors the risks and returns of each managed fund option and may apply restrictions reducing the maximum allowable exposure for members.



Source: Peer median is derived from 21 similar platform products. Administration fees are inclusive of any cost of recovery fees or Operational Risk Financial Requirement reserves.

Product Appropriateness Assessment



OPTIONS, FACILITIES & BENEFITS

AusPrac 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.

AusPrac's focus on driving improvements to the quality and usage of communication and member engagement tools has resulted in above average member engagement. Members and their Advisors have access to the digital online portal for reviewing and updating their investments. As well as the ability to purchase and sell pooled investments and direct assets members have access to comprehensive market data and extensive reporting functionality to assist them into making informed decisions and to help them monitor the superannuation account portfolio of assets.

The 'Education Hub' continues to provide members with a structured form of financial education on superannuation and its key basics. The Education Hub's digital content and financial literacy tools are being actively monitored to improve and tailor content to members with a focus on driving engagement and improving member financial literacy.

The Trustee has made available to members a Retirement Income Calculator via its website. The calculator is a forecasting tool that is free to members and is intended to assist them in reviewing their financial situation and to help them engage with their superannuation, particularly as they approach retirement.

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

INVESTMENT STRATEGY

AusPrac's investment menu consists of four diversified options and an enhanced Cash option. The options are offered through both Accumulation and Pension products.

Its diversified investment options consist of two passive investments: passive balanced and passive growth, as well as the AusPrac 50/50 and AusPrac High Growth options. The Enhanced Cash option is for investors seeking greater liquidity or hold a more conservative investor sentiment. The simple menu of investment options gives enough choice for multiple risk appetites appropriate for the member cohort.

In addition, members who are more confident in managing their financial affairs have access to a direct investments platform, available through the OneVue Managed Account, where they can invest in a Cash Hub, Managed Funds, Managed Account Model Portfolios, ASX Listed Securities and Term Deposits.

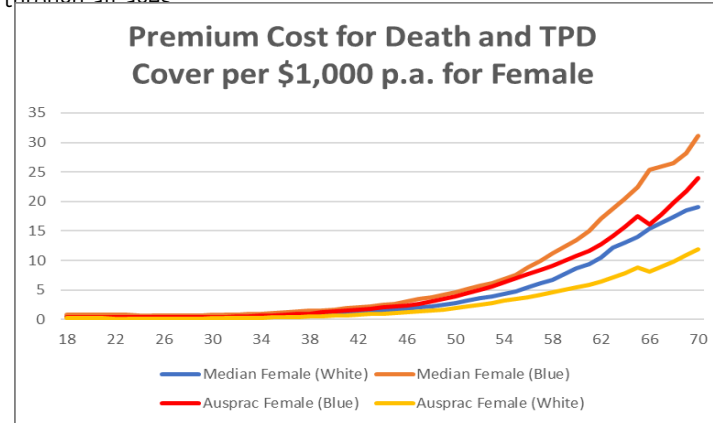
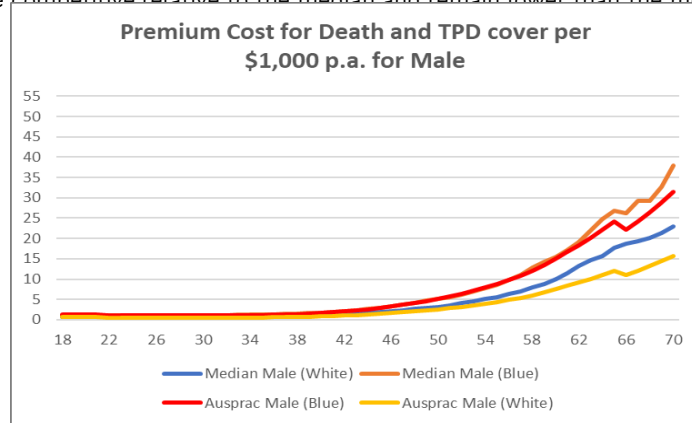
The investment strategy was reviewed in October 2022. There were no changes recommended as a result of this review.

Based on the above, the Trustee has determined that the investment strategy and investment menu is appropriate for members as it provides options for all members who have varying risk profiles and circumstances.

INSURANCE STRATEGY & FEES

AusPrac provides insurance for members through MLC Limited with default cover available to eligible members when they join. The default cover default includes Death & TPD cover. Underwritten and transfer in of cover Death & TPD insurance cover available to eligible applicants.

The following graph shows how AusPrac's premiums* for Death and TPD insurance cover compared to the industry median. Generally speaking, as members become older, the premiums increase to reflect the rise in health risk. The standard cover starts at \$100,000, rises to \$150,000 at age 25, rises to \$250,000 at age 30 and then reduces to \$200,000 at 40 and again to \$150,000 at 50. As shown below, we consider the insurance premiums to be competitive relative to the median and remain lower than the median through all ages.



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

SCALE

AusPrac had 1,148 members with approximately \$101 million in funds under management as at 30 June 2022

- Net members' benefits flows of \$-10.1M, compared to the industry median of \$23.8M
- Number of member accounts reduced by -13.42%, compared to the industry median of 0.084% reduction
- Net rollovers out of Australian Practical Super of -\$13.42M, compared to the industry median of -\$28.4M in net rollovers out
- Net members' benefit outflow ratio of 250.22%, compared to the industry median of 91.4%

Although the above data indicates that AusPrac was in an outflow position during FY22, it is significant to note that, during FY22, members of AusPrac transitioned to become a part of YourChoice Super a sub-plan of OneSuper at 30 June 2022. This resulted in members becoming part of a larger sub-plan within OneSuper to improve scale and efficiencies and provide access to a comprehensive range of services. This consolidation has the potential to realise improved member benefits and lower overall costs through a range of efficiencies for members of AusPrac and OneSuper.

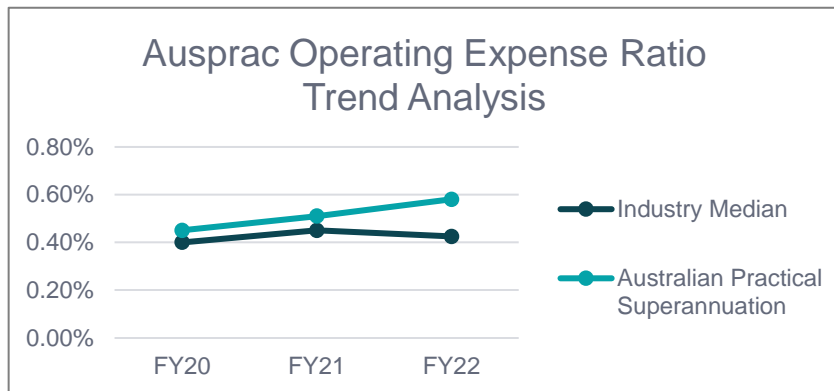
With the transition to the YourChoice sub-plan, members are now part of a greater FUM and larger member pool, this is likely to drive down fixed cost per member and per dollar of FUM.

In addition, there is an ongoing ability to access resources at scale as a result of the operating model leveraging an outsourced administrator and an outsourced trustee.

It is concluded that members are not disadvantaged due to the scale of, and within, the Trustee's business operations.

OPERATING COSTS

AusPrac's operating expense to asset ratio trend is shown in the graph below compared to the industry fund median. It is noted that AusPrac's operating expense ratio was slightly higher than that of the median fund in FY20 and FY21, but it had a large increase during the 2022 financial year. The increase was mainly caused due to consolidation costs that were charged to AusPrac and the smaller size of the Fund.



Noting the smaller size of the Fund, the operating costs are considered appropriate for AusPrac's members and do not inappropriately erode their retirement balances. However, it is expected future operating costs will significantly reduce as a result of improved scale through consolidation of products.

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 comprised of a flat account keeping fee, an expense recovery fee and asset-based fee, calculated as a percentage of the account balance (tables shown below). The combination of a minimum fee and reducing asset-based fee on larger account balances ensures that the costs of services, which are available to all members, are appropriately shared across the fund membership base.

The investment fees are lower for the passively managed options reflecting the lower cost of managing the investment.

Administration fees are charged to members on a monthly basis and investment fees are factored into unit price. 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 average AusPrac member has an account balance of over \$90,000 balance and fees collected at the average account balance cover the expense ratio.

Asset-based Fees		
From	To	Rate
\$0	\$250,000	0.35% p.a.
\$250,000	\$1,000,000	0.25% p.a.
Over \$1m		Nil

Account Keeping fee	
From	Flat
Core Menu	\$150 p.a.
Full Menu	\$250 p.a.

Expense Recovery fee	
Rate	Flat
0.03% p.a.	\$50 p.a.



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