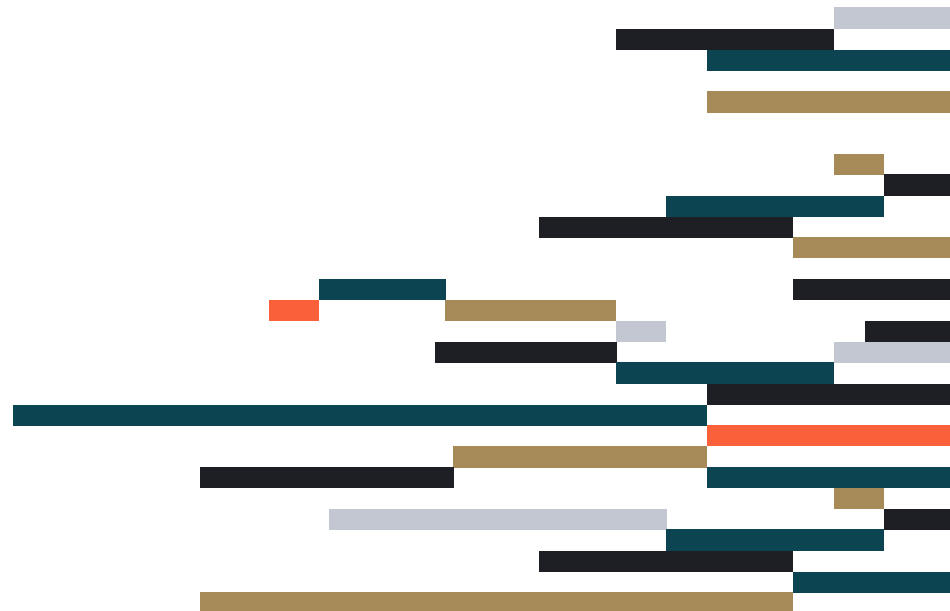


# Cruelty Free Super

**Member Outcomes Assessment**  
For the year ended 30 June 2023

28<sup>th</sup> February 2024



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# Introduction

# Introduction

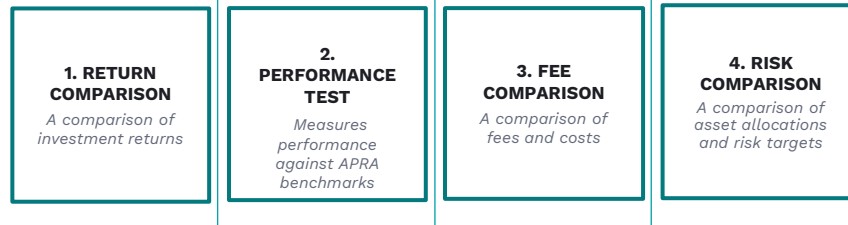
## What is the Member Outcomes Assessment?

This document will focus on the key outcomes found within the assessment in relation to Cruelty Free Super; a product of the Professional Super sub-fund of Tidswell Master Superannuation Plan (“Cruelty Free Super”). It analyses how Cruelty Free Super’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 **not** promoting the financial interests of the beneficiaries invested in its products on the basis that:

- The Cruelty Free Growth investment option failed the performance test due to lower investment returns and higher fees against the benchmark;
- Administration fees and total fees (which includes both administration and investment fees) are more expensive than the peer fund median across all modelled balance points; and
- The investment returns and risk-adjusted returns are lower than peer fund medians for short and longer term performance.

However, the Trustee does note that:

- The objective assessment factors, being Cruelty Free Super's options, benefits and facilities, investment strategy, insurance strategy and fees and scale are considered appropriate for Cruelty Free Super's members and do not inappropriately erode their retirement balances.
- The Promoter has been actively pursuing strategies which enhance the features, benefits and services of the superannuation fund it promotes, with the objective of achieving efficiencies, and improving member outcomes, while reducing associated costs of running the Fund.
- During the financial year there was a reduction in both administration and investment fees. The investment fee reduced from 0.93% to 0.43% and the administration fee has reduced from 0.94% to 0.765%. The Trustee also notes that a further 0.10% reduction to the administration fee was introduced in September 2023.
- Cruelty Free Super Fund focuses on Environmental, Social, and Governance investment strategies which can be more costly and result in underperformance against industry medians. Members accept this to ensure alignment with their ethical standards.
- Given the product's relatively small size in the industry, the Trustee is currently working with the Promoter to potentially merge with a larger fund to improve member outcomes by decreasing costs and improve long-term sustainability.



# Choice Overview

# Cruelty Free Super Overview

Cruelty Free Super offers investors the opportunity to align their investment strategy with their moral standards. Cruelty Free Super offers a single diversified investment option that focuses on ensuring members are not invested in assets that cause harm, such as:

- Animal testing in the cosmetics industry, household products, medical and pharmaceutical research;
- Live animal export
- Fossil fuels
- Farming for animal products;
- Intensive animal livestock production;
- Gambling
- Tobacco
- Weapons
- Nuclear energy; and
- Animals in sport and entertainment



# Choice Assessment

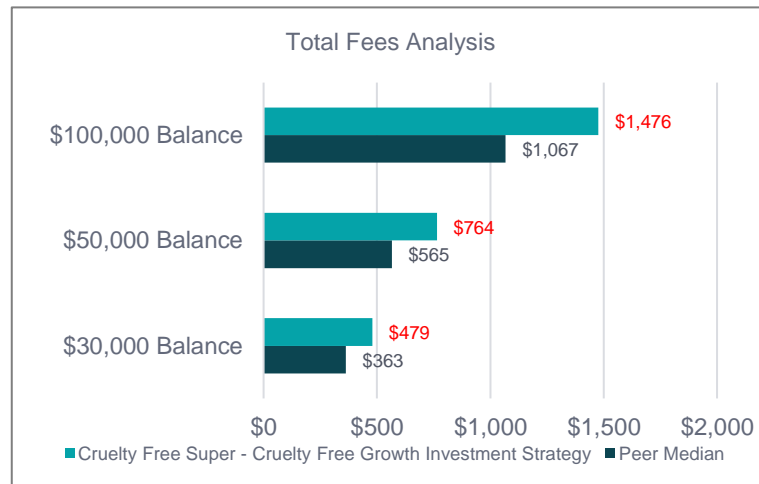
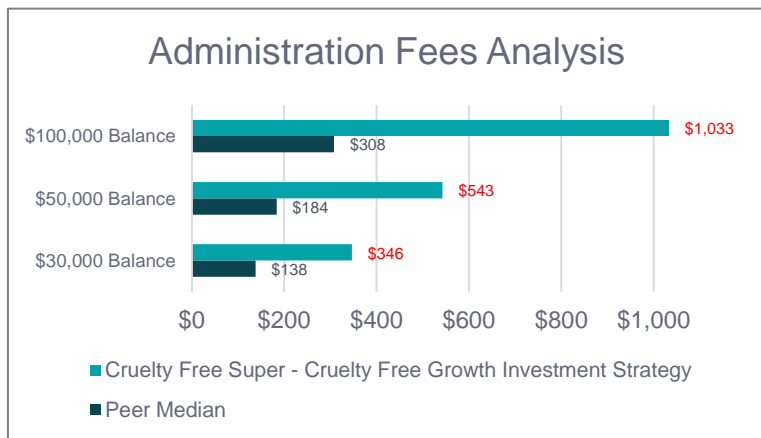
# Fees & Costs Comparison

Cruelty Free Super's total fees (administration fees plus investment fees), as well as its administration only fees, are compared to peer fund median fees in the charts below. Cruelty Free Super's investment options are considerably higher cost than the peer fund median when total fees are calculated on \$30,000, \$50,000 and \$100,000 balances. This is driven by the significantly high administration fees.

During the financial year there was a reduction in both administration and investment fees. The investment fee reduced from 0.93% to 0.43% and the administration fee has reduced from 0.94% to 0.765%.

For fees and costs, the Trustee has determined that, on balance, it is not promoting the financial interests of the beneficiaries as the total fees and administration fees for Cruelty Free Super at a product level are more expensive than the peer fund median.

However, the Trustee does note the product fees are expected to be higher given the niche nature of the product, which includes an Environmental, Social and Governance ('ESG') investment option which incorporates additional asset screening. Members are willing to accept this to ensure alignment with their ethical standards.



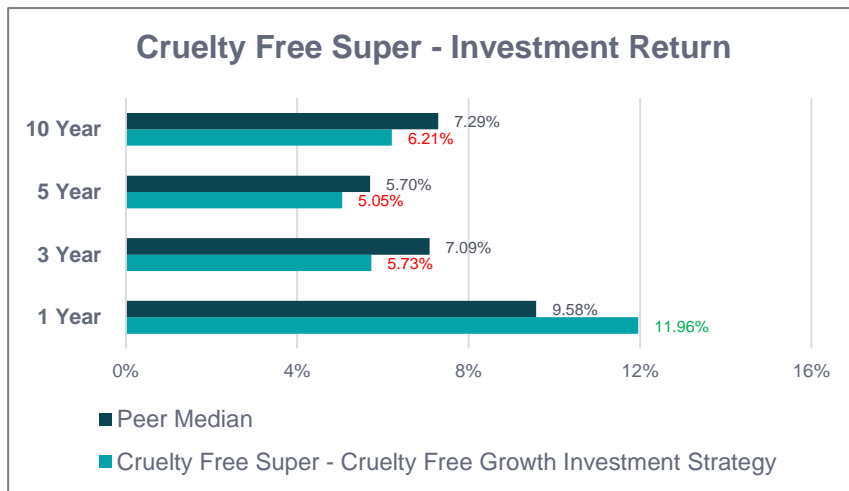
# Investment Return Comparison

The graphs below illustrate Cruelty Free Super's investment performance compared to the relevant peer fund median.

Cruelty Free Super's net investment returns have outperformed the peer fund median over one-year to 30 June 2023, however has underperformed over the three, five and ten year periods.

The Trustee notes that Cruelty Free Super's investments focus on Environmental, Social, and Governance ('ESG') strategies have contributed to underperformance against industry medians given the screening criteria which can eliminate large companies in the well performing financial and resource sectors.

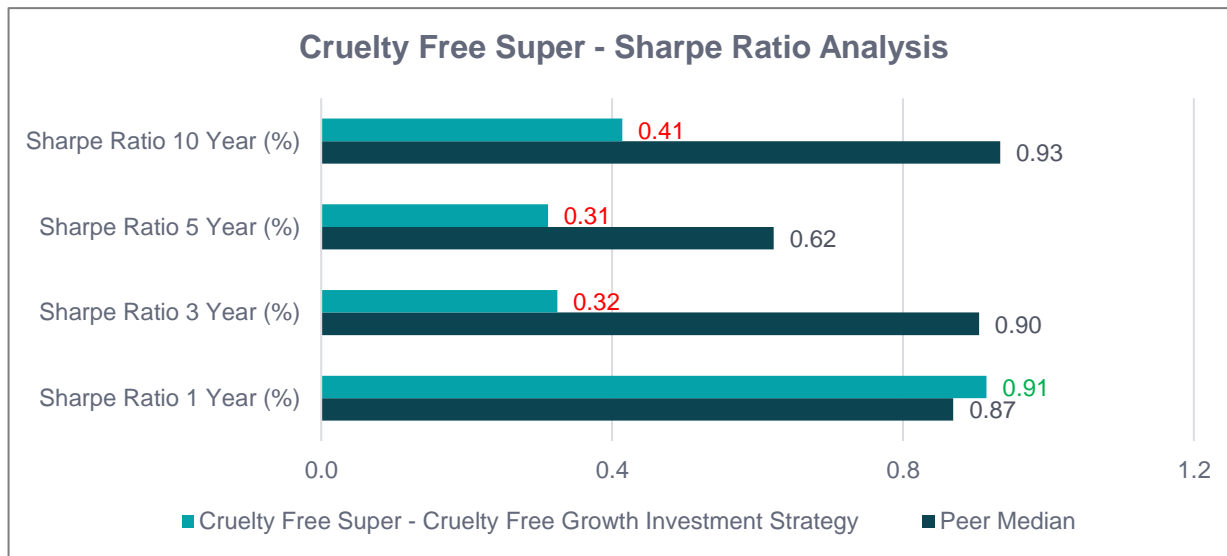
However, overall, the Trustee has determined it is not promoting the financial interests of the beneficiaries as performance is significantly below peers for all measured periods, other than for one year.



# Investment Risk Comparison

In the following graphs, we measure the performance of Cruelty Free Super's 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.

Cruelty Free Super's Sharpe ratio is significantly lower than the peer median over the three, five and ten year timeframes, however is slightly higher than the peer median over one year. The Trustee has determined the financial interests of the members are not being promoted as risk-adjusted returns are lower than the peer fund median over all measured periods other than one year.



# APRA's annual performance test: Accumulation

From 1 July 2023, certain accumulation diversified investment options are subject to APRA's annual performance test. The test measures the performance of these investment options against a benchmark determined by APRA. It compares the investment option's earnings, less costs, with those of similar investment options over the same period. It does not consider member's personal situation, fees, or tax. Only investment options with performance history of at least 6 years were included in the 2022/23 performance test.

Where an investment option fails the performance test for the first time, the trustee must inform members of this fact in writing. Where an investment option fails the performance test for two consecutive years, the trustee will be prohibited from accepting new members into that option.

The performance test assessment metric is based on two components:

1. an investment return component that measures the net investment return of a product relative to an APRA determined benchmark that is created using a product's strategic asset allocation (SAA) (the '*Actual return minus benchmark return*' in the table below). The investment return, relative to the benchmark, measures how a Trustee is delivering value to members when implementing the SAA for the product; and
2. an administration fees component, which compares the latest year of administration fees and costs charged to an industry benchmark. For each option, a representative administration fees and expenses ('*RAFE*' in the table below) measure is determined based on fees over the latest year for a representative member with an account balance of \$50,000 and this is compared to a benchmark ('*Relevant BRAFE*' in the table below), which is the median RAFE of all options within each product group.

An investment option fails the performance test if the '*performance test metric*' is below a threshold of minus 0.50% points per annum.

Below are the performance test results for Cruelty Free Growth in the 2022/23 performance test. The Cruelty Free Growth investment option failed the performance test by a considerable margin due to lower investment returns and higher fees against the benchmarks.

Product name	Actual return minus benchmark return	RAFE	Relevant BRAFE	Performance test metric	Performance test pass/fail
Cruelty Free Growth	-0.60012%	0.84888%	0.27160%	-1.17740%	Fail

## OPTIONS, FACILITIES & BENEFITS

Cruelty Free Super offers a range of services and products to all members in order to assist them with engaging with their superannuation so that they can maximise their balance and optimize their retirement outcomes.

Cruelty Free Super's member services have a high rate of satisfaction. During FY23, Cruelty Free Super had a Net Promoter Score ('NPS') of 25. Cruelty Free Super offers a number of online features for its members including a First Home Super Saver Scheme tracker, a balance graph and a personalized year in review for each member.

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

Cruelty Free Super offers a single diversified product with a balanced growth asset allocation. Cruelty Free Super offers a product for investors who are seeking an Environmental, Social and Governance ('ESG') product with additional asset screening elements. Cruelty Free Super focuses on restricting investments in companies whose activities involve the abuse or exploitation of animals or are not consistent with other ethical, environmental and social values.

This is a niche market so a single strategy investment option is appropriate and, at a balanced growth asset allocation, this caters to a general risk appetite that is inclusive to varying investors.

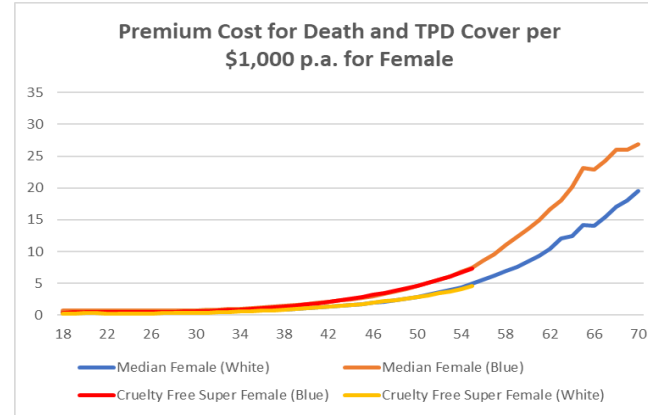
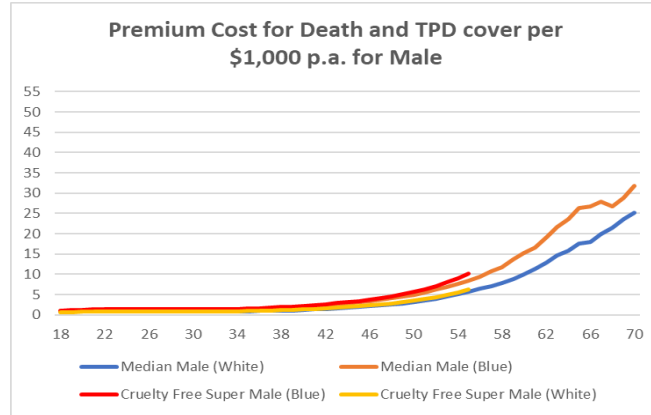
The investment strategy was reviewed in February 2023. At this review the risk objective was reduced from very high to very high. At the same time, the asset allocation was changed to introduce an allocation to international fixed interest at a weighting of 5%. The introduction of international fixed interest allows for greater diversification. At the same time the allocation to international equities was increased and Australian equities reduced, as well as a reduction in the allocation to Australian fixed interest.

The Cruelty Free investment option failed the FY23 Performance Test. As a result, the Trustee has been considering options to introduce modifications to the Cruelty Free Super fund which involves changes to the strategic asset allocations and ESG screening to be better positioned to pass future performance tests.

## INSURANCE STRATEGY & FEES

Cruelty Free Super provides insurance for members through AIA Australia. As members must opt-in to standard insurance cover when they first join, after considering their personal situation and needs, the Trustee has determined that there is no inappropriate erosion of members' retirement income due to the impact of insurance premiums.

The following graph shows how Cruelty Free's premiums\* for Automatic Death and Total and Permanent Disability insurance cover compared to the industry median. Generally speaking, as members become older, the premiums increase to reflect the rise in health risk. As shown below, we consider the insurance premiums to be competitive relative to the median when taking into account the age demographics of Cruelty Free's members (the large concentration of members aged between 20-35).



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

## SCALE

Cruelty Free Super had 6,613 members with approximately \$127M in funds under management as at 30 June 2023.

While these figures are indicative of Cruelty Free Super's relatively small size in the industry, it is anticipated that Cruelty Free Super will be able to achieve greater scale benefits in the short term based on its growth during FY23:

- Funds Under Management ('FUM') grew by 27.98%, compared to the industry median of 10.10%
- Net members' benefits flows of \$16.5M, compared to the industry median of \$9.07M
- Number of member accounts grew by 57.04%, compared to the industry median of 1.157%
- Net rollovers into Cruelty Free Super of \$1.8M, compared to the industry median of -\$29.9M
- Net members' benefit outflow ratio of 32.98%, compared to the industry median of 90.65%

From the above, it is clear that Cruelty Free Super's growth rate is positive and higher than the industry median. This puts Cruelty Free Super in an increasingly competitive position and will help drive down various costs as more members join the Fund.

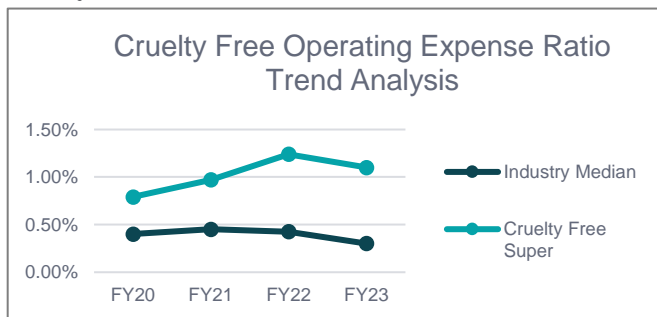
It is concluded that members are not disadvantaged due to the scale of, and within, the Trustee's business operations.

However, given Professional Super's (of which Cruelty Super is a product) relatively small size in the industry, the Trustee is currently working with the Promoter to potentially merge with a larger fund to decrease costs and improve long-term sustainability.



## OPERATING COSTS

Cruelty Free Super's operating expense ratio for FY20 – FY23 is shown in the graph below compared to the industry fund median (derived from APRA data). It is noted that Cruelty Free Super's operating expense ratio is significantly higher than that of the median fund however has decreased by 0.14% from FY22 to FY23.



The Trustee notes that although the operating costs decreased in FY22/23, they are significantly higher than the industry fund median. The relatively high operating expense ratio may indicate member retirement balances being inappropriately eroded. The Trustee is currently working with the Promoter to potentially merge with a larger fund to decrease costs and improve long-term sustainability.

## BASIS FOR SETTING FEES

The basis for setting fees is considered appropriate for a niche product with investments into very restricted asset selection with high negative screening costs. There is a premium reflected in the total fee for a product that aligns to specific moral standards.

The investment and administration fee rates are in line with operating costs which ensures fairness and limits subsidisation by higher account balances.

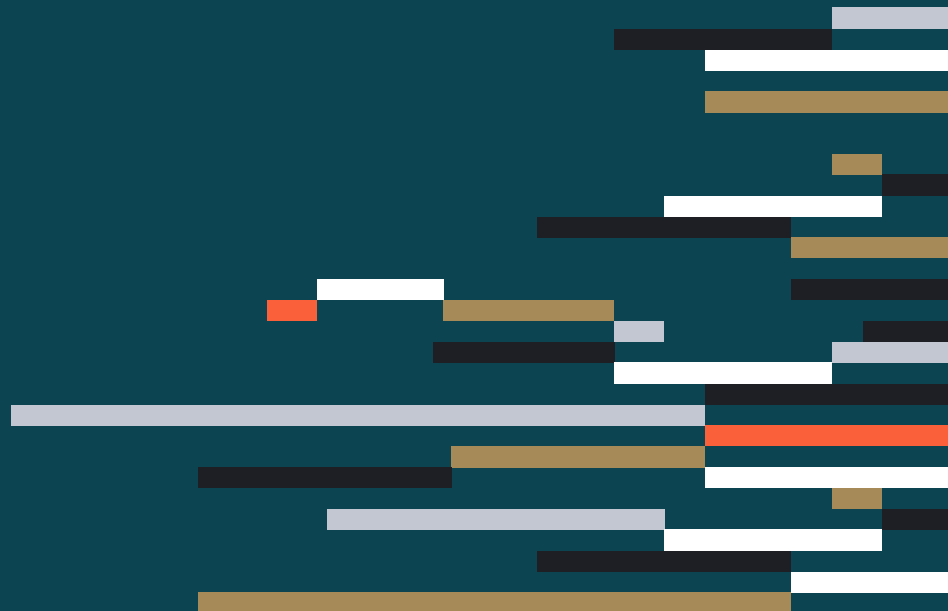
The administration fee is comprised of the combination of a flat dollar-based fee (\$52 per annum) and a percentage fee of 0.765% per annum. The combination of flat and percentage administration fee structure will not erode the retirement balances of lower account balance members but ensures services available to all members are appropriately shared across the fund membership base.

Fees are charged to members on a monthly basis, therefore ensuring 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.

The basis for setting fees is not promoting the financial interests of the beneficiaries as the administration fees for Cruelty Free Super are more expensive than the peer fund median.

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