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2021 Fat Cat Funds Report



About the Report

Superannuation, after the family home, tends to be one of the largest assets that most Australians have. It's also an accurate indicator of how financially secure each individual will be in their later years. Despite this, the information superannuation funds provide is opaque and complex.

It doesn't need to be this way. In our nine years of creating the annual Fat Cat Funds Report, we've seen that there are three fundamental – and very simple – questions that need to be answered:

1. What are the fees?
2. What is the performance of my fund relative to my investment strategy?
3. Have I chosen the correct investment strategy for my age and personal circumstances?

In recent years, the government has made attempts to clear the fog around superannuation. Initiatives like the ATO's YourSuper comparison tool are a win for consumers – but YourSuper only applies the test for underperformance to 80 MySuper funds.

Additionally, the YourSuper comparison isn't adjusted for different risk levels. When any superannuation comparison only focuses on the best performers, the questions around choosing the best investment strategy for your age and circumstances remain unanswered.

This is why we create the Stockspot Fat Cat Funds Report every year. It's the only report in the country that analyses such a wide breadth of funds (~600), and adjusts performance based on risk levels. That means someone in their 50s with a moderate super fund can compare other moderate funds, instead of comparing a growth fund that's more suitable for a fresh graduate.

We also compare funds from an overall perspective, collating the performance of all the funds from different providers. This gives consumers an at-a-glance idea of how their particular fund is performing – especially in relation to fees. In fact, our worst performing Fat Cat Funds cost Australians over $120m in fees every year.

My observation is that Australians really want to take control of their finances – and I'm excited about the next phase of superannuation in Australia. New funds are being launched and there are mergers across the industry. Ideally this leads to the abolishment of Fat Cat Funds and every Australian maximising their financial security. If this report helps that happen in any way, then we've done our job.



Chris Brycki
Founder and CEO



Marc Jocum
Investment and Business Initiatives Manager

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Best and Worst Performing Super Funds

In this year's Fat Cat Funds Report, we compared ~600 multi-asset investment options offered by Australia's largest 100 super funds to find the best super funds – and the worst. The funds were assessed on how they performed after fees, and compared to other super investment options of similar risk over five years.

See our methodology

OVERALL FIT CAT FUNDS 2021

Gold
4 Fit Cat Funds each

- UniSuper
- Qantas Super

Silver
3 Fit Cat Funds each

- AustralianSuper
- Fiducian Super

Bronze
2 Fit Cat Funds each

- IOOF
- Aware Super
- AMG Super
- Holden Employees Superannuation Fund

OVERALL FAT CAT FUNDS 2021

Gold
10 Fat Cat Funds

- OnePath

Silver
6 Fat Cat Funds

- AMP

Bronze
3 Fat Cat Funds each

- MLC
- Zurich
- Energy Industries Superannuation Scheme (EISS)

Top 10 Aggressive Growth Super Funds

Aggressive growth super funds are funds with at least 80% in growth assets like shares and property. This investment strategy tends to be more appropriate for investors with the longest investment horizon, as returns can be very volatile over the short-term.

TOP 10 – AGGRESSIVE GROWTH FIT CAT FUNDS

RANK	FUND NAME	5 YEAR RETURN (p.a.)
1	MLC - Horizon 7 Accelerated Growth Portfolio	14.9%
2	UniSuper - High Growth	13.5%
3	UniSuper - Sustainable High Growth	13.2%
4	Equipsuper - Growth Plus	12.7%
5	Fiducian Super - Ultra Growth Fund	12.5%
6	Hostplus - Shares Plus	12.3%
7	CBUS - High Growth	12.1%
8	NGS Super - Share Plus	11.9%
9	Aware Super - High Growth	11.8%
10	Plum Super - Pre-mixed Aggressive	11.7%

Bottom 10 Aggressive Growth Super Funds

Aggressive growth super funds are funds with at least 80% in growth assets like shares and property. This investment strategy tends to be more appropriate for investors with the longest investment horizon, as returns can be very volatile over the short-term.

BOTTOM 10 – AGGRESSIVE GROWTH FAT CAT FUNDS

RANK	FUND NAME	5 YEAR RETURN (p.a.)
1	OnePath - OptiMix Balanced	5.3%
2	OnePath - Managed Growth	5.6%
3	OnePath - Active Growth	5.7%
4	MLC - Inflation Plus - Assertive Portfolio	6.3%
5	Colonial First State (CFS) Rollover & Superannuation - Future Leaders	6.4%
6	OnePath - OptiMix Growth	6.5%
7	Zurich - Managed Growth	6.6%
8	Commonwealth Bank Group Super - Balanced (MySuper)	7.0%
9	Energy Industries Superannuation Scheme (EISS) - Balanced (MySuper)	7.4%
10	OnePath - OptiMix High Growth	7.6%

Top 10 Growth Super Funds

Growth super funds have 60%-80% in growth assets like shares and property. This investment strategy tends to be more appropriate for investors with a long investment horizon because returns can be quite volatile over the short term.

TOP 10 – GROWTH FIT CAT FUNDS

RANK	FUND NAME	5 YEAR RETURN (p.a.)
1	HESTA - Sustainable Growth	11.8%
2	AustralianSuper - Balanced	10.4%
3	UniSuper - Sustainable Balanced	10.2%
4	Fiducian Super - Balanced Fund	9.9%
5	Aware Super - Growth	9.8%
6	IOOF - MultiMix Balanced Growth	9.7%
7	UniSuper - Balanced	9.6%
8	Lutheran Super - Balanced Growth (MySuper)	9.5%
9	Victorian Superannuation Fund - Growth (MySuper)	9.5%
10	Qantas Super - Growth	9.4%

Bottom 10 Growth Super Funds

Growth super funds have 60%-80% in growth assets like shares and property. This investment strategy tends to be more appropriate for investors with a long investment horizon because returns can be quite volatile over the short term.

BOTTOM 10 – GROWTH FAT CAT FUNDS

RANK	FUND NAME	5 YEAR RETURN (p.a.)
1	AMP - FLS - AMP Capital Multi-Asset	3.6%
2	OnePath - OptiMix Moderate	3.9%
3	OnePath - Tax Effective Income	4.0%
4	Energy Industries Superannuation Scheme (EISS) - Conservative	4.2%
5	Zurich - Balanced	4.5%
6	AON - smartMonday MySuper - Age 65	5.6%
7	Perpetual WealthFocus - Perpetual Diversified Growth	5.7%
8	MyLifeMyMoney - RetirePlus	5.8%
9	Energy Industries Superannuation Scheme (EISS) - Conservative Balanced	5.8%
10	The ARA Retirement Fund - Growth	5.9%

Top 10 Balanced Super Funds

Balanced super funds are funds with 40-60% in growth assets like shares and property. This investment strategy tends to be more appropriate for investors with a medium to long investment horizon, as returns can be slightly volatile over the short-term.

TOP 10 – BALANCED FIT CAT FUNDS

RANK	FUND NAME	5 YEAR RETURN (p.a.)
1	AustralianSuper - Conservative Balanced	8.0%
2	AMG Super - Balanced	7.6%
3	Colonial First State (CFS) - FirstChoice Multi-Index Moderate	7.3%
4	Qantas Super - Balanced	7.2%
5	Qantas Super - Glidepath: Destination	7.2%
6	QSuper - Lifetime Focus 2	6.8%
7	Active Super (Local Government Super) - Balanced	6.7%
8	LGIAsuper - Balanced	6.5%
9	Holden Employees Superannuation Fund - Cautious	6.5%
10	legalsuper - Conservative Balanced	6.4%

Bottom 10 Balanced Super Funds

Balanced super funds are funds with 40-60% in growth assets like shares and property. This investment strategy tends to be more appropriate for investors with a medium to long investment horizon, as returns can be slightly volatile over the short-term.

BOTTOM 10 – BALANCED FAT CAT FUNDS

RANK	FUND NAME	5 YEAR RETURN (p.a.)
1	Zurich - Capital Stable	2.5%
2	OnePath - OptiMix Conservative	2.6%
3	OnePath - Conservative	2.7%
4	MLC - Inflation Plus - Conservative Portfolio	2.9%
5	Plum Super - Pre-mixed Conservative	3.9%
6	AON - smartMonday MySuper - Age 75 and above	3.9%
7	MLC - Inflation Plus - Moderate Portfolio	4.0%
8	OnePath - Balanced	4.1%
9	Club Plus Superannuation - Conservative Balance	4.1%
10	Perpetual WealthFocus - Perpetual Conservative Growth	4.2%

Top 10 Moderate Super Funds

Moderate super funds are funds with 20-40% in growth assets like shares and property. This investment strategy tends to be more appropriate for investors with a short to medium investment horizon. Returns are relatively stable over the short-term.

TOP 10 – MODERATE FIT CAT FUNDS

RANK	FUND NAME	5 YEAR RETURN (p.a.)
1	AustralianSuper - Stable	6.0%
2	Fiducian Super - Capital Stable Fund	5.5%
3	NESS Super - Stable	5.5%
4	Qantas Super - Conservative	5.4%
5	AMG Super - Capital Stable	5.4%
6	ANZ Staff Super - Cautious	5.3%
7	Media Super - Stable	5.2%
8	Holden Employees Superannuation Fund - Conservative	4.9%
9	GuildSuper - Conservative	4.8%
10	IOOF – MultiMix Capital Stable	4.8%

Bottom 10 Moderate Super Funds

Moderate super funds are funds with 20-40% in growth assets like shares and property. This investment strategy tends to be more appropriate for investors with a short to medium investment horizon. Returns are relatively stable over the short-term.

BOTTOM 10 – MODERATE FAT CAT FUNDS

RANK	NAME	5 YEAR RETURN (p.a.)
1	The ARA Retirement Fund - Defensive	3.2%
2	AMP - FLS - Future Directions Conservative	3.2%
3	AMP - FLS - Professional Conservative	3.3%
4	AMP - FLS - Schroder Real Return	3.3%
5	QSuper - Lifetime Sustain 2	3.4%
6	AMP - FLS - AMP Conservative	3.5%
7	Commonwealth Bank Group Super - Conservative	3.9%
8	AMP - FS - Super Easy Conservative	3.9%
9	Asgard - MySuper 1940's Lifestage	3.9%
10	ANZ Smart Choice Super - Conservative	4.0%

How to Choose a Great Super Fund

With hundreds of superannuation funds (from retail funds to industry funds) and thousands of investment options, it can be confusing to know which super fund is right for you. This is why most Australians just stick with their employer's default super fund. However, this is not always the best option and may even be a Fat Cat Fund.

The government is increasingly trying to help Australians with their superannuation decisions, but following two simple steps is the key.

STEP 1: FIND THE RIGHT TYPE OF FUND BASED ON YOUR CAPACITY TO TAKE RISK

A successful superannuation strategy starts with a mix of investments that's suitable for your investment horizon and retirement goals.

The balance between risk and return potential should be the main consideration when working out the right mix of different investments in your super fund. The further away retirement is, the greater amount of risk you can take.

For most people, we suggest the below mix of investments provides the right balance to maximise long term returns, reduce short term risk, keep up with inflation and increase financial certainty towards retirement.

	20s AND 30s	40s AND 50s	60+
Investment mix	High growth / Growth	Growth / Balanced	Balanced / Moderate
Defensive assets (e.g. bonds and cash)	0% to 30%	21% to 50%	41% to 70%
Growth assets (e.g. shares and property)	70% to 100%	50% to 79%	30% to 59%

You should also look for a fund with proper diversification across the assets it invests in. For example, including international shares as well as Australian shares in your portfolio. Proper diversification helps to reduce exposure to risks associated with a particular country, company, or market sector.

Some funds also offer exposure to other assets such as direct property, infrastructure, credit alternatives, private equity and venture capital. Historically these assets have provided some diversification benefits. However, unlike bonds, their growth trends in the same direction as shares, so should be considered part of the growth asset group.

Diversifying properly is particularly important for people close to retirement who want to protect against the chance of significant losses in the short-term because they need cash-flow soon.

Our research has shown that increasing the number or complexity of asset classes does not add much incremental benefit.

In many cases, a simple fund consisting of a handful of diverse asset classes can provide better returns.

STEP 2: CHOOSE A SUPER FUND WITH LOW FEES

Fees are the other most important factor when choosing a superannuation fund. You can't control how markets perform, but you can control how much you pay for the management of your hard-earned money.

The smaller that fee, the more money left over for you. Our research shows that lower cost super funds tend to outperform higher-cost funds across all categories and time periods.

Our research over the last nine years shows funds that charge less than 1% p.a. perform better in the long-term. There is a clear correlation between high fees and long-term underperformance in superannuation.

	LOWER FEE FUNDS (UNDER 1% P.A.)	HIGHER FEE FUNDS (OVER 1% P.A.)	DIFFERENCE IN RETURNS
High growth	9.86%	9.42%	+0.44% p.a.
Growth	7.86%	7.57%	+0.30% p.a.
Balanced	5.61%	5.01%	+0.60% p.a.
Moderate	4.46%	4.27%	+0.19% p.a.

Average 5 year p.a. return (%) as of 30 June 2021

Index funds are the lowest cost investment option for members. We found that simple indexed options outperform over 90% of all super funds. Many superannuation funds hire so-called “expert” investment consultants to pick a range of active fund managers to invest their members’ retirement savings.

Unfortunately, these investment consultants and active fund managers take a nice big juicy fee from your super but rarely outperform a basic index that tracks the market. In fact, over the last five years approximately one in ten super funds were able to beat the index fund with similar risk (after fees and taxes).

Poor fund performances come predominantly from active management fees as well as higher administration and operating expenses than necessary. The impact of high fees becomes more apparent with each passing year as funds find it more and more difficult to generate sufficient returns to make up for the drag of higher fees.

LOW FEES AND THE RIGHT MIX OF ASSETS – THE WINNING COMBINATION

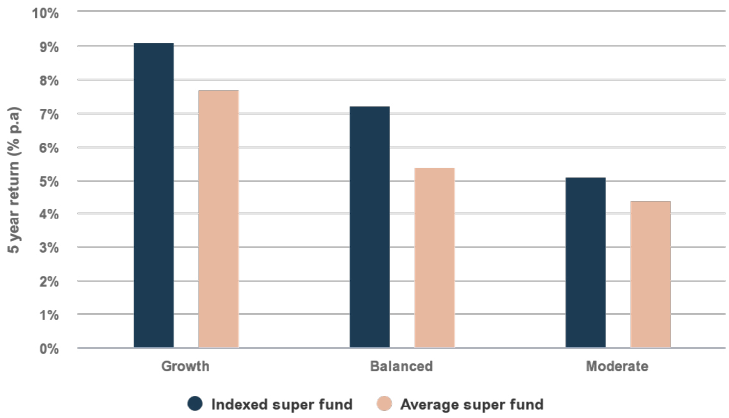
Australians would benefit greatly if they simply looked for a super fund with suitable risk for their age, and the lowest possible fees. Our research shows that a simple, low-cost indexing strategy achieved top-quartile returns in each category over the past five years.

This shows that people in default super funds would benefit greatly if all money simply went into a low-cost index fund.

Once you have low fees and you’ve chosen the right investment strategy for your risk capacity, you can rest easy. This is the winning combination for choosing a super fund with the best chance of good returns.

Indexed super outperforms the majority of super funds

Data as of 30 June 2021



Source: Stockspot, Vanguard diversified index fund performance after all fees and taxes based on an accumulation super account.

Our Methodology: How Our Ratings Are Different

Our super fund ratings differ from others in two main ways:

1. Most ratings businesses are paid by the funds who they rate. This creates a conflict of interest and means they only show the top funds. Stockspot doesn't get paid by the funds we rate which means we can show the top and bottom performers.

2. We compare apples for apples. Many ratings don't question the asset allocations (growth and defensive assets) reported by the funds. There's no verification of the actual risk of the defensive assets reported by funds. This allows super funds to game the ratings system by mis-categorising growth assets as defensive assets to move up the league tables.

WHAT IS A DEFENSIVE ASSET?

ASIC defines defensive assets as cash or fixed interest investments. This is what we have used as our definition of defensive assets too.

Cash is defensive because when markets fall it holds its value. High grade bonds can do one better and rise when share markets fall. History backs this up too. Over the past 20 years, Australian shares have had six down years, and during each of those time periods, bonds rose to cushion the impact.

CAN OTHER ASSETS BE DEFENSIVE?

This depends on the opinion of the super fund manager or ratings agency – but opinions are often incorrect.

High income stream and low growth assets

Just because an investment delivers a big income stream, that doesn't make it defensive. Take Telstra. Most of Telstra's returns come from regular fully franked dividend income but its share price has dropped ~40% since 2015.

Infrastructure and property assets

A lot of infrastructure and property in super is held in unlisted vehicles which raises three questions:

- The value of the investment is the opinion of the fund manager. There is no way to know if that value is credible given there is no open market for the asset.
- The financial structure may see a return of capital reported as an income distribution.
- The investment is very illiquid and a sale is often extremely constrained by agreements with co-investors, including first right of refusal and so-called 'tag-and-drag' conditions. One critical characteristic of a defensive asset is to be able to sell it in a deep and open market.

The inherently risky nature of these investments is usually exposed towards the end of each market cycle when too much debt is loaded in to increase returns. In 2008, the Real Estate Investment Trust (REIT) sector fell by a whopping 75% globally because these funds had created income which couldn't be sustained under high debts and falling prices.

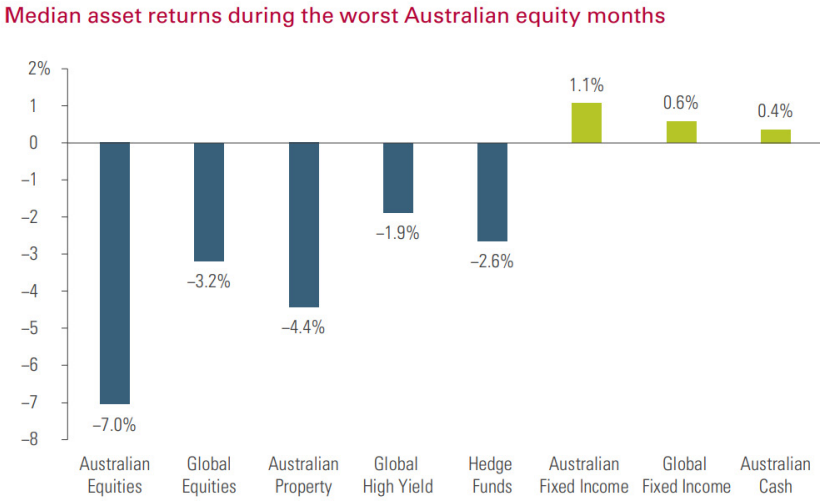
During the Global Financial Crisis some super funds stopped members from taking their money out because they couldn't sell illiquid unlisted assets. One fund, MTAA Super, lost $1.67 billion due to their hedging of unlisted assets[1]. MTAA super lost its spot as one of the best performing funds in 2008 to become the second worst according to Super Ratings.

CREATIVE DEFINITIONS OF DEFENSIVE ASSETS

In recent times many super funds have invented their own definition of a defensive asset which has helped to push them up the rankings of other super fund ratings.

We believe that other ratings agencies and APRA should apply the same criteria for categorising defensive assets within super funds. This would prevent high risk super funds masquerading as balanced or conservative funds, stop the gaming of the ratings process to attract new members, and ultimately give consumers a much better understanding of the source of fund performance and portfolio risk.

Diversification is particularly critical during periods of market stress



Source: Vanguard Asset Allocation Report June 2020

[1] MTAA Super unveils hefty losses https://www.smh.com.au/business/mtaa-super-unveils-hefty-losses-20110614-1g1x9.html

Stockspot was founded in 2013 with a mission to help more Australians invest better

Read our other research work below:

- ETF Research 2021
- ETF Research 2020
- ETF Research 2019
- ETF Research 2018
- ETF Research 2017
- ETF Research 2016
- ETF Research 2015
- Fat Cat Super Research 2020
- Fat Cat Super Research 2019
- Fat Cat Super Research 2018
- Fat Cat Super Research 2017
- Fat Cat Super Research 2016
- Fat Cat Super Research 2015

Our expert team of investment advisors are available to help when you need it.

Visit our website to schedule a call

www.stockspot.com.au

Email us with any questions

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