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The super mess we need sorted

By Theo Marinis

One of the biggest challenges for members of super funds is they can't reliably compare them – and it is up to the Productivity Commission to fix this situation, says Adelaide based financial strategist Theo Marinis.

The solution, however, does not lie in publishing a league table based on performance, without providing members with some understanding of the how each of the super funds invest their members' money – and how this fits with the labels under which they are marketed.

Host Plus, for example, currently offers a 'Balanced' portfolio which has a 90% allocation to growth assets (generally Australian and international shares and property).* With the majority of the portfolio exposed to growth assets, to my mind and the industry's standard definitions, any link with a 'balanced' fund profile is tenuous. In fact, this is really a 'high growth' fund with all the inherent volatility risks.

It is little wonder, then, with markets booming, that Host Plus was the best performing in the 'Balanced' fund sector in 2018.

This is just one example of the marketing spin that has crept into the superannuation system.

Under the present Productivity Commission recommendations, we may well find that funds like the Host Plus are placed on top of any performance League Table – with the result that trusting consumers attracted to the performance and the position on the table would be likely to pile in - falsely reassured by the marketing label 'Balanced'.

When the market inevitably corrects, however, many of those members who redirected their super to this fund are also likely be shocked by a massive under-performance and reduction in their account balance because their 'balanced' fund was really a 'high growth' fund. In other words, a wolf masquerading in sheep's clothing - designed to provide a false sense of security for a VERY aggressive portfolio.

In 2008 the MTAA super fund was also a top performer – until the GFC stripped $1.5 billion of member assets.* Massive reversals are possible in difficult times, so consumers need to know what fund they are actually buying into. A typical balanced fund has a more conservative spread of assets to reduce the scale of any declines.

To really help consumers the Productivity Commission needs to make some rules which define the parameters for investment profiles currently marketed as 'Defensive', 'Conservative', 'Moderate' 'Balanced' 'Growth' and 'High Growth'. And these definitions must have as their basis a) the exposure to each asset class (e,g. shares, property, fixed interest and cash); and b) the appropriate weightings to growth and defensive assets. With industry funds you can't "compare the pair" when each fund can decide what is an apple and what is an orange.

If someone wants to invest in a high growth fund, because it suits their timeframe for investment and they are comfortable with riding out market downturns, that's fine. But the potential for people to rely on terms which are fundamentally misleading (i.e. when 'balanced' really means 'high growth' and therefore find their super savings exposed to higher than expected market volatility) should be removed.

'Our authorities should be doing all they can to make super understandable to the average worker – without the marketing spin,' Theo Marinis said.

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* Read here: Stockspot Blog 'How super funds play the ratings game' by Chris Brycki

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