Superestate

Member Outcomes Assessment
For the year ended 30 June 2021

23rd February 2022

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Introduction

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Introduction

What is the Member Outcomes Assessment?

This document will focus on the key outcomes found within the assessment in relation to Superestate. It analyses how Superestate'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 2022, and is relevant for the financial year ended 30 June 2021.

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

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Product Determination

The Trustee has determined that it is promoting the financial interests of the beneficiaries invested in its products on the basis that:

- The investment returns of all its investment options underperformed the peer fund median on a one and three year basis. However, accounting for investment risk over both a shorter and longer term time horizon indicates better risk-adjusted returns than peer fund medians;
- Administration fees and majority of total fees (which includes both administration and investment fees) are less expensive than the peer fund median across all modelled balance points for all investment options;
- The objective assessment factors, being Superestate's options, benefits and facilities, investment strategy, insurance strategy and fees, operating costs and the basis for setting fees, are considered appropriate for Superestate's members and do not inappropriately erode their retirement balances.

The Trustee notes however, that there is an opportunity for improvement in relation to recent investment performance and in relation to increasing scale of the Fund through a focus on continued growth.

Choice Overview

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Superestate Overview

Superestate was launched in 2018 and is Australia's only superannuation fund with a specific focus on residential property. Superestate still invests in typical superannuation fund investments such as shares, infrastructure, fixed income and cash.

Superestate was established with the motivation to provide Australians 'a piece of the property pie' as 'property investment has become a privilege for the lucky few who can actually afford it'.

Superestate offers three investment options:

Balanced Property

With 25% of the fund invested directly in residential property, Balanced Property suits those who are seeking growth but who wish to lower the risk of rapid changes in value over the short term

Growth Property

With 50% of the fund invested directly in residential property, Growth Property suits those who are prepared to accept a higher level of risk to achieve greater returns over the long term.

Balanced Essentials

With 10% of the fund invested directly in residential property, Balanced Essentials suits those who are seeking growth but who wish to lower the risk of rapid changes in value over the short term.

Choice Assessment

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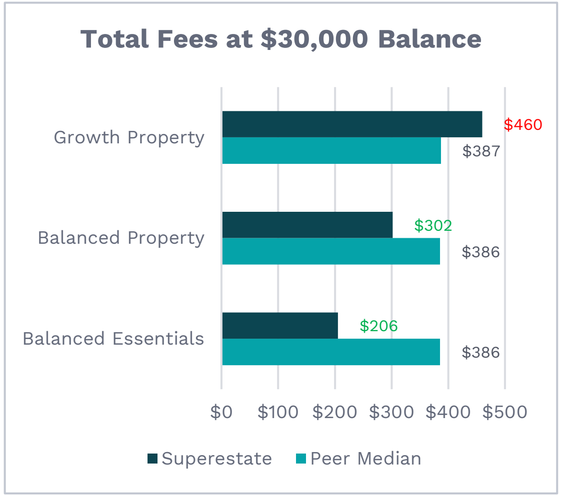
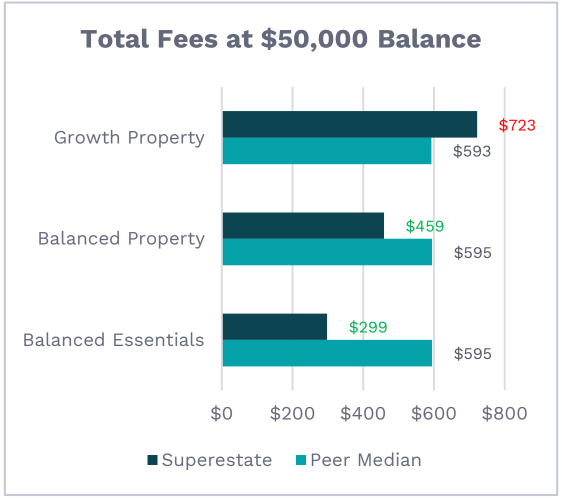
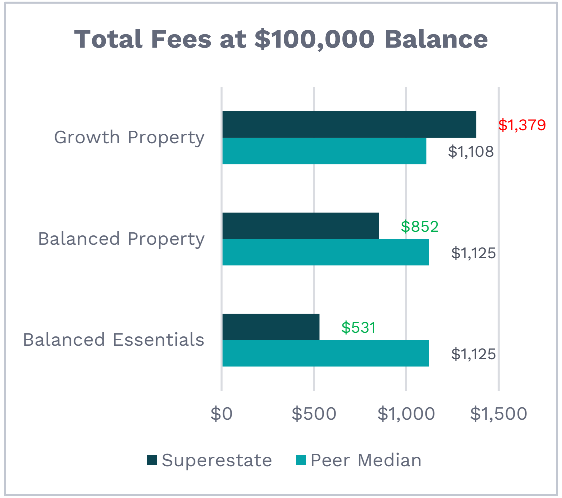
Fees & Costs Comparison

Superestate's total fees (administration plus investment fees) are compared to peer fund median fees in the charts below. For the Growth Property investment option, Superestate is higher cost than the peer fund median when total fees are calculated on a $30,000, $50,000 and $100,000 balances. For the Balanced Property and Balanced Essentials investment options, Superestate is lower cost than the peer fund median for total fees at all balance points ($30,000, $50,000 and $100,000).

The Trustee notes that this is consistent with APRA's heatmap which rated Superestate as having more competitive fees (showing as white in the heatmap) than the median fund on a total fees basis for $50,000 and $100,000 balances, with only the Growth Property option being less competitive (showing as orange in the heatmap).





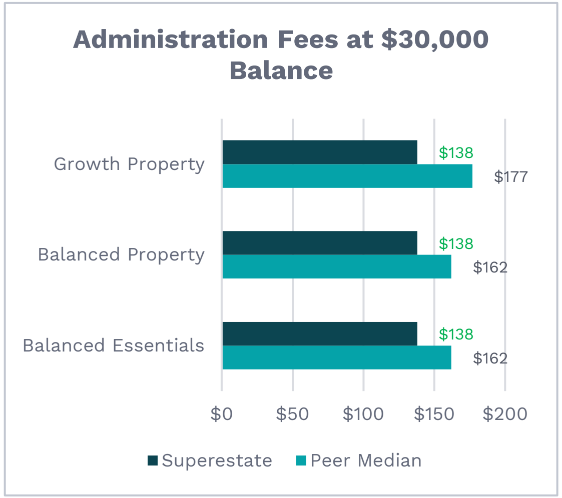


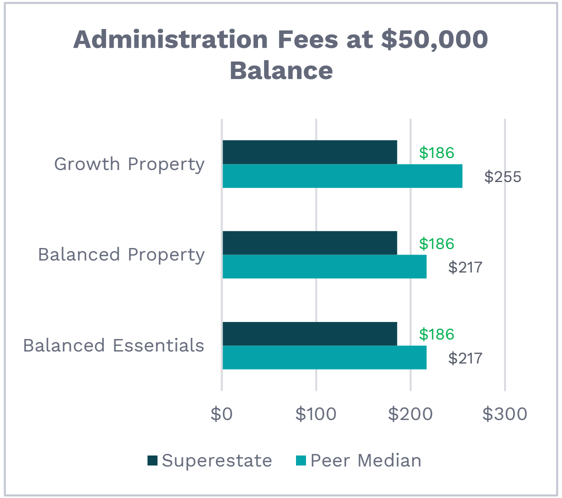
Source: Peer median is derived from SuperRatings median data for the relevant asset class (Growth (77-90) for its Growth Property option, and Balanced (60-76) for its Balanced Property & Balanced Essentials options)

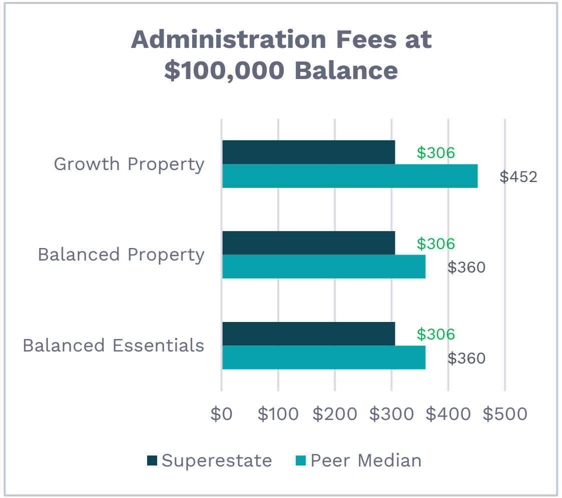
Fees & Costs Comparison

Superestate's administration fees for its investment options are compared to the peer fund median administration fees in the charts below. Across all balance points ($30,000, $50,000 and $100,000) Superestate is less expensive than the peer fund median. This is consistent with APRA's heatmap rating for Superestate's administration fees and indicates that its administration fees are more competitive than its peers.

For fees and costs, the Trustee has determined that, on balance, it is promoting the financial interests of the beneficiaries as the administration fees and majority of total fees for Superestate at a product level are less expensive than the peer fund median.







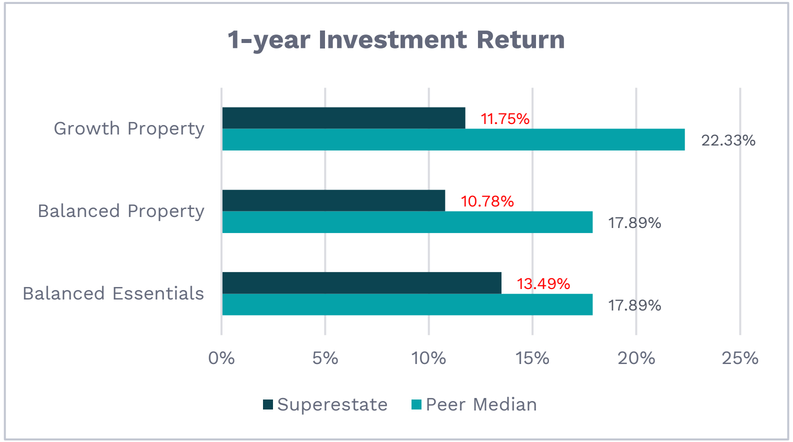
Source: Peer median is derived from SuperRatings median data for the relevant asset class (Growth (77-90) for its Growth Property option, and Balanced (60-76) for its Balanced Property & Balanced Essentials options)

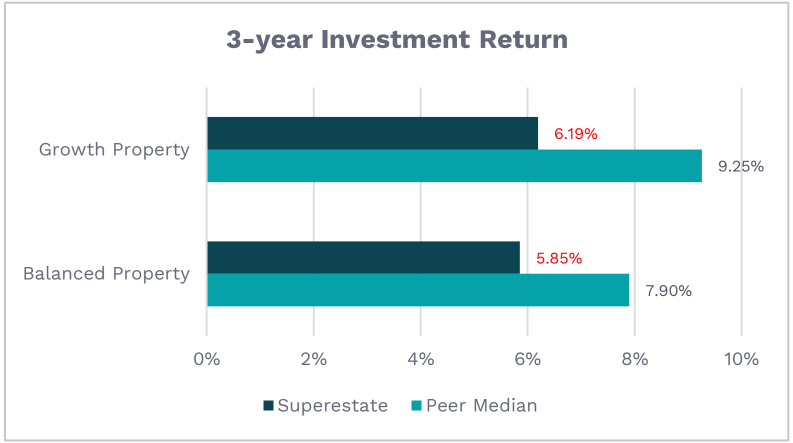
Investment Return Comparison

Superestate's net investment return for one year and three year performance to 30 June 2021 has underperformed the peer fund median. As superannuation is a long term investment, the Trustee considers the three year investment performance to be more significant than the one year performance.

As Superestate has not yet been in operation for five years, there are no five year or longer investment performances to consider. Its Balanced Essentials option has not yet been in operation for three years, so there is no three year investment performance to consider for this investment option.

The Trustee has determined it is not promoting the financial interests of the beneficiaries as the investment returns are underperforming peers significantly.





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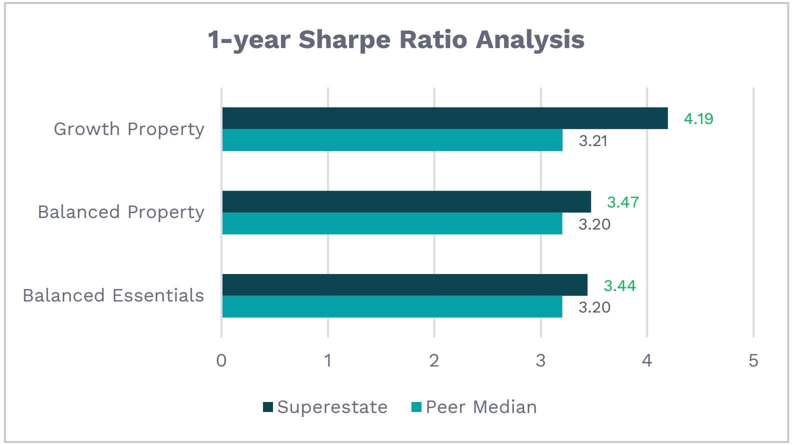
Source: Peer median is derived from SuperRatings median data for the relevant asset class (Growth (77-90) for its Growth Property option, and Balanced (60-76) for its Balanced Property & Balanced Essentials options)

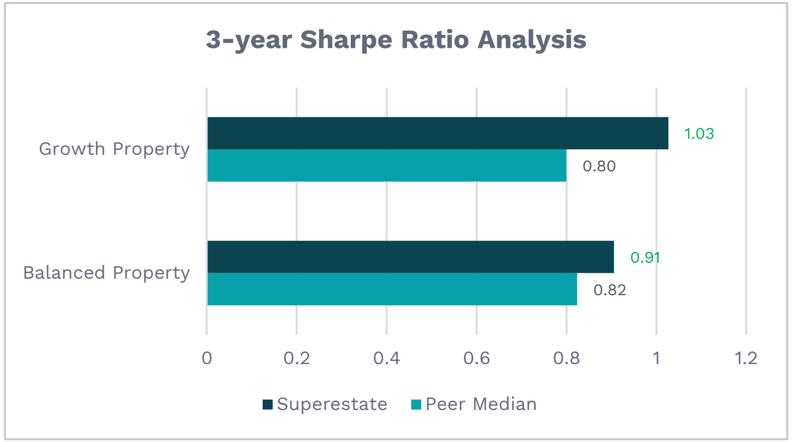
Investment Risk Comparison

Superestate's Sharpe ratio, which is a standardised measure of risk adjusted returns, for all investment options are higher than the peer fund median over a one year and three year time horizon, with the Growth Property option being the best performing one (4.19 ratio vs 3.21 median ratio over the 1-year period, and 1.03 ratio vs 0.80 median over the 3-year period).

As Superestate has not yet been in operation for five years, there are no five year or longer Sharpe ratios to consider. Its Balanced Essentials option has not yet been in operation for three years, so there is no three year Sharpe ratios to consider for this investment option.

The Trustee has determined it is promoting the financial interests of the beneficiaries as the Sharpe ratio over 1 year and 3 year timeframes is higher than the peer fund median. This indicates lower volatility on returns which can be suitable for investors with lower risk appetites.





Source: Peer median is derived from SuperRatings median data for the relevant asset class (Growth (77-90) for its Growth Property option, and Balanced (60-76) for its Balanced Property & Balanced Essentials options)

OPTIONS, FACILITIES & BENEFITS

Superestate 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 optimise their retirement outcomes.

Members are able to interact with Superestate either via a digital member portal or through a contact centre.

Superestate's member services have a high rate of customer satisfaction, with a post-call member survey conducted in April 2021 providing the following results:

- Customer Satisfaction score 4.92/5
- Likeliness to Refer score 4.43/5

INVESTMENT STRATEGY

Superestate's investment objectives are designed to provide a unique exposure to residential properties mainly to Australians in the 25-35 age demographic as a key target who like to invest in residential properties. The three investment options on offer provide different levels of exposure to residential property.

As a choice product, Superestate offers three investment options so that members can select investments that are appropriate to their needs. This provides members with access to investments with differing levels of investment risk. The high growth investment allocation is more suited towards younger members. The Trustee believes that the investment strategy and risk and the return target is appropriate for Superestate's member cohort which has a median age of 33.

Superestate's investment strategy was last reviewed in July 2021. This review was conducted to conform with the requirements of SPS 530. As part of this review, the strategic asset allocations, investment and risk objectives were tested.

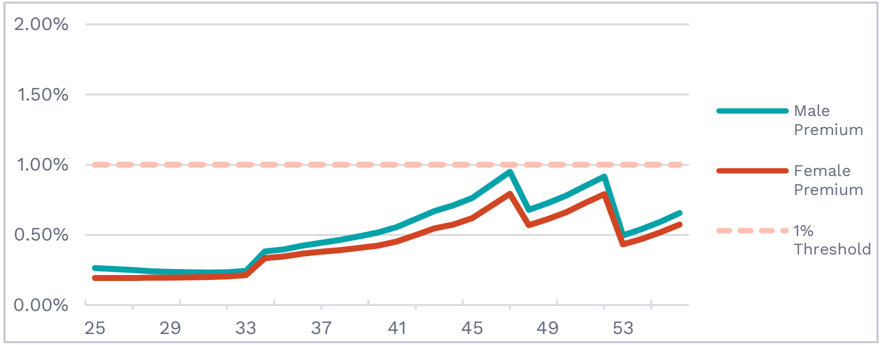
The outcome of this review was that no changes were made to the asset allocations, investment or risk objectives. They were determined to be appropriate for each investment option.

INSURANCE STRATEGY & FEES

Superestate provides insurance for members. Default cover for Death & Terminal Illness, TPD and Income Protection is provided, with Death & Terminal Illness cover being provided by Metlife, and TPD and Income Protection provided by YourCover.

Default cover is not provided to members with inactive accounts, new members aged under 25 years, or members whose account balance have not reached $6,000 at any point since 1 November 2019. This broadly covers the group of people who are unlikely to require insurance so they do not need to opt-out themselves.

The following graph shows how Superestate's premiums* for Death and Total and Permanent Disability insurance cover compares to a 1% of salary threshold** from ages 25 to 55. As members become older, the premiums increase to reflect the rise in health risk. For Superestate's members, insurance cover drops at age 48 and again at 53 in order to ensure that the premiums remain affordable as members age. Whilst Superestate has not opted into the Insurance in Superannuation Voluntary Code of Practice, the recommended benchmark of 1% of annual salary is still considered.



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

*Death and TPD rates based on cover for non-smoking males/females in white collar occupations in NSW.
**Based on $90,000 annual salary as a proxy for ABS average full-time persons weekly total cash earnings of $1,835.40 (May 2021). The generally held view in superannuation, is that insurance premiums shouldn't cost more than 1% of your salary per annum to prevent your superannuation balance being eroded.

SCALE

Superestate had 6,073 members with approximately $71 million in funds under management as at 30 June 2021.

While these figures are indicative of Superestate's relatively small size in the industry, it is anticipated that Superestate will be limited in being able to achieve greater scale benefits in the short term based on its growth during FY21:

- Funds Under Management ('FUM') grew by -11%, compared to the industry median of +15%
- Net members' benefits flows of -$16M, compared to the industry median of -$4M
- Number of member accounts grew by -3%, which is approximately the same as the industry median
- Net rollovers into Superestate of -$7M, compared to the industry median of -$28M
- Net members' benefit outflow ratio of 275%, compared to the industry median of 107%

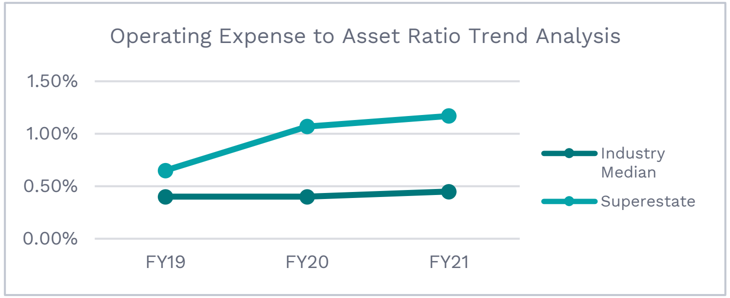
From the above, it is clear that Superestate's growth rate is negative and lower than the industry median.

However, there is an ongoing ability to access resources at scale as a result of Superestate'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 Superestate would benefit from a continued focus on growth.

OPERATING COSTS

Superestate'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 Superestate's operating expense ratio increased by 0.52% from FY19 to FY21 and is now significantly higher than that of the median fund. Comparatively, the median fund operating expense ratio has only increased by 0.05% during the FY19 to FY21 period.



Noting the smaller size of the Fund, the operating costs are considered appropriate for Superestate's members and do not inappropriately erode their retirement balances. However, the Trustee notes that there is an opportunity to improve this ratio in the future to bring it closer to the median fund ratio.

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 the combination of a flat dollar-based fee ($66 per annum) and a basis points fee which varies based on the investment option. For balances under $6,000 the flat dollar fee is waived and total fees are capped at 3%, which means it will not erode the retirement balances of lower account balance members and ensures services available to all members are appropriately shared across the fund membership base.

Administration 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.

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