

Wealth Management Sector

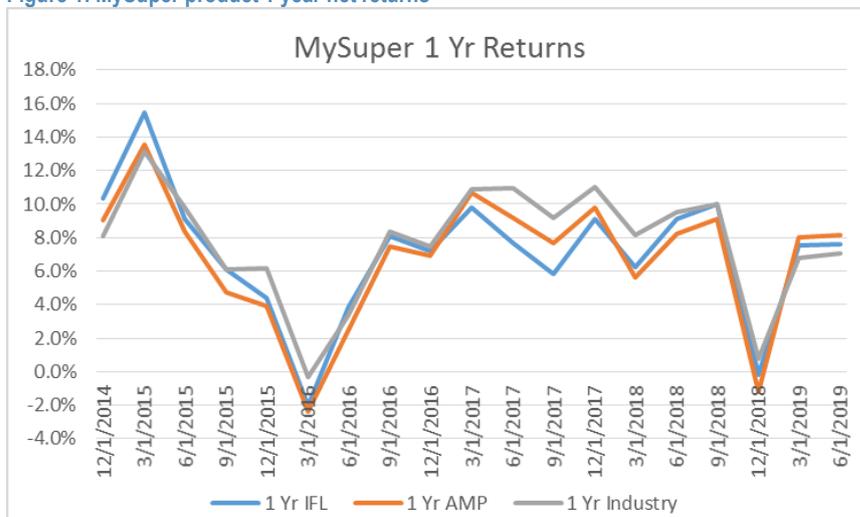
APRA MySuper fund performance data

The Australian Prudential Regulation Authority (APRA) plans to publish a heat map that provides insights into the outcomes being delivered by all MySuper products on the market to their members.

APRA's goal is to assess outcomes being delivered by MySuper products, which would be useful for trustees, APRA, planners and members. There is a risk that this could flow to the 'choice' segment of the market as well, where the Productivity Commission found outcomes were worse than for the MySuper segment, but where profit margins are typically higher. It is this last piece that we see as representing the greatest risk for IOOF Holdings (IFL, Lighten) and AMP Ltd (AMP, Hold).

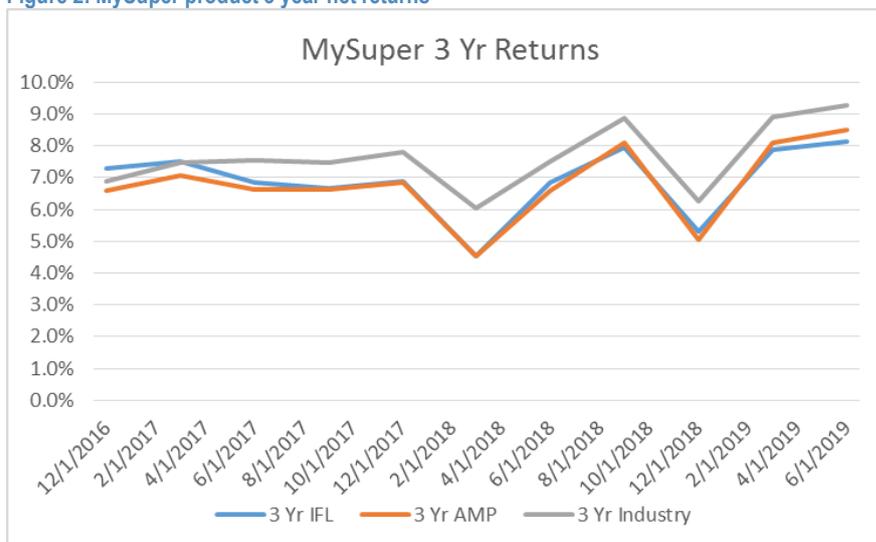
- **Overview and use of heat map** – 1) A graduated colour scheme will provide insight on registrable superannuation entities (RSE)-level performance for a) investment performance, b) fees and costs, and c) sustainability of member outcomes, including trustees' ability to provide quality member outcomes in the future and address areas of underperformance. The colouring will highlight only areas of underperformance, rather than promoting strong performance. 2) Products delivering outcomes below benchmarks will be depicted as yellow to dark red. 3) APRA will meet trustees identified as having underperforming MySuper products and ensure they deliver on plans to address this in a timely manner. 4) If issues persist, APRA may require other options, including a merger or exit from the industry in some cases. 5) The heatmap will be released at least annually and metrics will be subject to review (for example, insurance metrics may be added). 6) Over time, as APRA's data quality for choice products improves, it will seek to provide useful data on these as well.
- **Key metrics** – 1) Investment performance: Five- and three-year net investment returns relative to benchmarks (a simple reference portfolio, that is, a portfolio of passive, low-cost and liquid investments, and a strategic asset allocation benchmark portfolio). 2) Fees and costs: Administration fees charged for various account balances (\$10,000, \$25,000, \$50,000, \$100,000 and \$250,000), as well as total fees on those account balances. 3) Sustainability of member outcomes: RSE adjusted total accounts growth rate (three-year average), RSE net cash flow ratio (three-year average) and RSE net rollover ratio (three-year average).
- **Objectives** – APRA's goal is to assess outcomes being delivered by MySuper products and thereby make it easier for customers to identify cheaper funds that are performing well. There is a risk that this could flow to the choice segment of the market as well, where the Productivity Commission ruled that outcomes were worse than the MySuper segment, but where profit margins are typically higher. We see this last piece as the greatest risk for the likes of IOOF and AMP Ltd.
- **Implications for IOOF and AMP Ltd** – We are concerned about this APRA initiative potentially affecting retail funds, including IOOF and AMP Ltd, as we understand their performance may not be as strong as some of the industry funds. Underperforming funds could require significant action by trustees, prioritising customer interests at the expense of shareholder interests. A sharp focus on administration fees charged and total fees would place greater pressure on fee margin compression through completion, and draw further comparison between fees charged by industry funds and fees charged by retail funds. We believe some of these differentials may have been addressed already by the retail funds.

Figure 1: MySuper product 1 year net returns



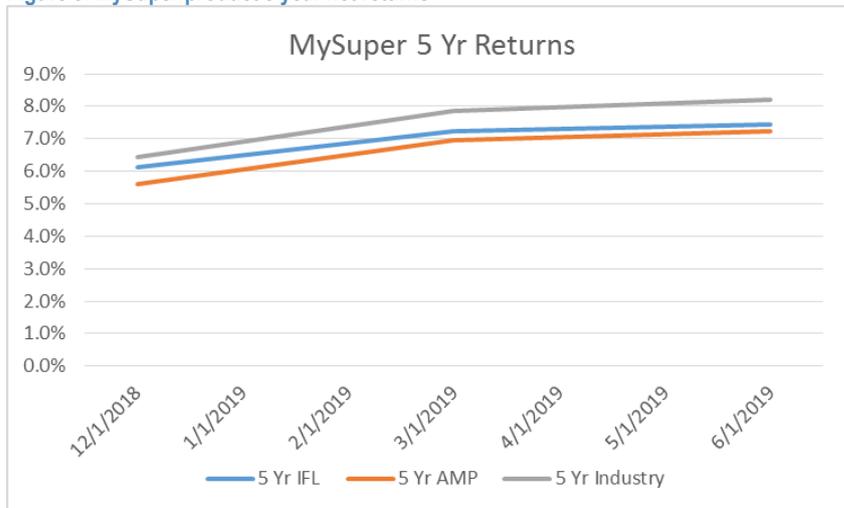
Source: Ord Minnett estimates, APRA Data Table 2a Representative Member Performance – MySuper products with Single Investment Strategy. AMP MySuper No.1, IOOF MySuper and Industry is a weighted average of all MySuper Products based on FUM

Figure 2: MySuper product 3 year net returns



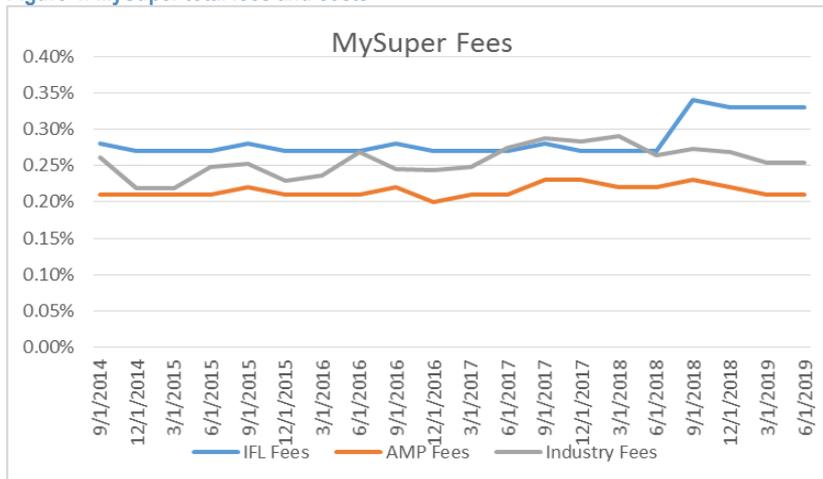
Source: Ord Minnett estimates, APRA Data Table 2a Representative Member Performance – MySuper products with Single Investment Strategy. AMP MySuper No.1, IOOF MySuper and Industry is a weighted average of all MySuper Products based on FUM

Figure 3: MySuper product 5 year net returns



Source: Ord Minnett estimates, APRA Data Table 2a Representative Member Performance – MySuper products with Single Investment Strategy. AMP MySuper No.1, IOOF MySuper and Industry is a weighted average of all MySuper Products based on FUM

Figure 4: MySuper total fees and costs



Source: Ord Minnett estimates, APRA Data Table 2a Representative Member Performance – MySuper products with Single Investment Strategy. AMP MySuper No.1, IOOF MySuper and Industry is a weighted average of all MySuper Products based on FUM

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SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historical volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.

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