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# Lifestyle Matters

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## Special Industry Super Funds Review

**Compare the Pair**  
*"Real" Performance Figures*

Let's compare apples with apples,  
not oranges.

# Compare the Pair

We have all seen the TV Commercials. Union backed Industry funds claiming they are superior to other funds because they have cheaper fees and do not pay commissions to advisors. Is this true? Maybe, if you are comparing apples with oranges.

## Fee Comparison – Industry Funds and Wholesale Funds

A fair comparison would be between the average industry fund, the average wholesale super fund and the average corporate super fund. The chart below highlights there is little difference between the funds based on fees if you compare “apples with apples”.

## The Value of Financial Advice

While using a low cost super fund is a smart strategy, do not get lulled into a false sense of security that this will be the silver bullet that provides you with a comfortable retirement.

The guy going up on the elevator in the “**Compare the Pair**” (ref: SMH Aug 5 2009) advertisement ends up with \$363,850 in super at age 65. Based on taking an income in retirement of 5%, this equates to around \$18,000 in retirement income! This is not good unless you are happy to be living off a dwindling national welfare pool in your old age – ala the Age Pension.

There is general agreement that having access to good financial advice will provide long term benefits and help people achieve

financial independence. However, the “value” of advice needs to be weighed up against the “cost” of advice.

Up until the last Budget in May 2009, most people could quite simply focus on paying off their home and maximising their super contributions over their lifetime in order to achieve financial independence. The Labor Government has completely destroyed this as an option by slashing the amount that can be contributed to super by over 50% (from the scheduled \$55K expected for 2010 to a maximum of \$25K pa).

We see our job as helping our clients to define what it means to be financially independent and then to establish a Financial Plan that gets them to that point. The goal posts have now been moved, which means that most people should now get a complete re-write of their Plan as alternative strategies (with unfortunately greater risks), must now be investigated. The alternative to ignoring the recent changes is working longer or retiring on less.

Our advice is to, at the very least, ensure you understand how the recent changes impact you and what alternatives are available to make up the difference.

## Asset Management Fees



Source: IFSA 2008 and Rice Warner Actuaries.

Note: MLC Fees based on MasterKey Fundamentals and Colonial Fees based on FirstChoice Wholesale – both freely available to the public.



## “Real” Performance Figures

Industry Funds have become noisier and noisier about their superior investment performance over the last couple of years. It is puzzling to think how it is possible that such a broad array of funds, which number over 40, could collectively be better investment managers than everyone else who is not in their group. The fact is that they are not.

The reality of the situation is presently coming to bear. It is like watching a train wreck materialise in slow motion as Industry Funds are reluctantly revaluing assets from pre-crisis levels to

present market levels. As most non-Industry Super funds have recovered with the share market, some Industry Funds are languishing. MTAA is a case in point here. They have recently devalued some of their commercial property by 25%; after which their Principal Executive Officer, Michael Delaney, was quoted as saying, “This fund was not designed for a once in a hundred year event”. The result: The MTAA Super Fund has now gone from the top ranked fund to the bottom ranked fund.

In August 2006, Chant West reported that over 3 years there

	3 Month Return	6 Month Return	Asset Allocation Category	Rank in AA Category
	to June 2009			
CFS FirstChoice Growth	10.70%	4.80%	Growth	1 out of 61
MLC Horizon 5 Growth	9.20%	2.60%	High Growth	8 out of 47
CFS FirstChoice Moderate	8.60%	4.50%	Balanced Growth	1 out of 36
MLC Horizon 4 Balanced	7.80%	2.40%	Growth	9 out of 61
Catholic Super Balanced	4.00%	2.00%	Growth	43 out of 61
WestScheme	1.50%	-5.40%	High Growth	45 out of 47
HostPlus Balanced	0.50%	-2.30%	Growth	58 out of 61
MTAA Balanced	-4.90%	-12.80%	High Growth	46 out of 47
MTAA Growth	-6.70%	-14.80%	High Growth	47 out of 47

was less than 0.2 per cent difference in returns between the median industry fund and retail master trusts.

Chant West reported that the minor difference at that time was probably not sustainable in the long term as the purported good performance was due to one-off factors such as different asset allocations, for example, high weightings to Australian Shares relative to International Shares. Chant West has also noted that 87% of Industry Super Fund property investments are “unlisted”.

In recent times, Warren Chant (Chant West), Alan Kohler (ABC), Kevin Bailey (Money Managers), Anette Sampson (Herald), Sally Pattern (AFR) and many others have led a chorus of commentators warning that Industry Funds have potentially overstated performance figures. According to SuperRatings (AFR report - “APRA puts Super Funds on Notice” - 21 July 2008), MTA, WestScheme, CatholicSuper and HostPlus have 52%, 43%, 38% and 35%, respectively, invested in unlisted assets.

On average, Industry Funds have 28% of their assets in unlisted assets. Retail Funds have around 9%, of which only about 2% is in unlisted property, infrastructure and private equity.

At the market low in March 2009, some industry funds were outperforming commercial funds by up to 6% for the year. How is this so? Simple answer – they were overweight unlisted assets that did not fall in value when the sharemarket fell. At the time, Alan Kohler wrote an article warning industry fund super members that there was a problem with asset valuations in some funds. He finished his article with the prophetic line

“I repeat: get out while you can.” We are happy to provide the full article on request.

Since that time, the performance of Industry Funds has floundered. While we have listed the performance of the funds mentioned earlier, in the above table, other big Industry Funds like Australian Super, Cbus, Hesta, Sunsuper and Vision Super are all in the bottom quartile for performance since March 2009. Again, we are happy to provide the detailed Chant West League tables on request.

And there could be further carnage to come:

*“Several other (industry) funds that invested in the unlisted sector later have poorer quality assets and less rigorous review systems. They are bracing for their annual revaluations of assets that still carry pre-crisis valuations and are triggering concerns about refinancing and possible fire sales.”* AFR – 10 August 2009

The lesson: Don't believe everything you hear and never rely on past performance as an indication of future performance. Beware of opaque and illiquid asset allocations. Also, beware of the investment manager who boasts of short term out-performance. History has taught us that, often, yesterday's noisy best performer is tomorrow's worst...and is probably looking for a quiet corner to hide in.



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