HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR

OnePath

OP153QON

Question:

Dr LEIGH: The one I'm looking at has your funds underperforming a simple reference portfolio by about one percentage point, which would be tens of thousands of dollars in retirement for the typical member. Your aim is to be able to return a profit to IOOF each year, isn't it? You didn't manage to do that this year, but long term your goal is to be able to return a profit to IOOF?

Ms Weekes: Our primary goal, as far as the board is concerned and as far as I'm concerned, is to act in members' best interests, and I mean that quite seriously. Yes, part of the corporate focus is to ensure sustainability and a reasonable return, but our focus is very much on members' best interests. I would like to take on notice an ability to respond to the question about the reference point that you're referring to in terms of the performance. As I say, even in the Smart Choice, the all participants super rating for the five-year return was second or third quartile and above our investment objectives. I would like to be able to respond properly to your comment about the weakness in performance. It doesn't match up with the material that I've got.

Answer:

OnePath notes that, at page 36 of the Transcript Dr Leigh was referring to a three-year investment horizon and that Ms Weekes was referring to five-year investment performance.

For reasons set out in detail below, OnePath believes that assessing investment returns over a five-year period is a more appropriate time frame to apply to assess fund performance than over three years.

OnePath has performed attribution analysis using the SmartChoice 1970s Fund (‘Fund’) as a sample against our own benchmark and the APRA simple reference portfolio. The Fund remained at 80-82% growth assets for the three-year period to 30 June 2019.

OnePath calculated a three-year reference benchmark return for an 81% growth asset allocation, using APRA’s assumptions, to be 10.33%, matching closely the reference return in the heatmap.

Comparison to the Fund’s 9.35% portfolio return identifies -98 bps p.a. of active return differential. Attribution of underperformance against the APRA ‘simple reference portfolio’ over a 3-year period to 30 June 2019 is as follows:

- -32 bps are accounted for because the fee assumption used by APRA on the reference benchmark information averages out to a fee of 10 bps on an after-tax basis. The after-tax investment fee for the Fund is around 42 bps, assuming 15% super tax rate.

- -10 bps due to Tactical Asset Allocation decisions in the three years to June 2016 (i.e. prior TAA approaches which had an impact on return in the period).

- -26 bps are accounted for because the APRA reference benchmark has no ability to account for allocation to Global Low Volatility Equities. APRA benchmarks all global equities against the MSCI All Countries Index. Low Volatility Equities asset class underperformed core global equities by ~3.7% p.a. for the three years to June 2019, which APRA counts as underperformance.

  Low Volatility Equities are expected to have approximately 20-30% lower volatility than core equities and play an important role in 1940s/50s Funds (older cohorts with members in retirement) in terms of managing sequencing risk, while still aiming to deliver core-equities type returns over the long term. APRA does not take account of this lower volatility in the heatmap, which OnePath believes is a shortcoming.

- -33 bps are accounted for because the APRA reference benchmark does not take listed real assets (Global REITs and Global Listed Infrastructure) into account and instead has a higher weight to core equities (Australian and Global Equities).

  Listed Real Assets underperformed core equities by ~7.5% p.a. for the three years to June 2019 and APRA consider this an underperformance. These two asset classes play an important role in SmartChoice Funds in terms of delivering diversification, lower volatility and access to stable cash flow streams, particularly Global Listed Infrastructure asset class. APRA's heatmap does not take account of the diversification benefits available from these asset classes.

As noted above, OnePath believe returns over a five-year period is a more appropriate time frame to assess fund performance than over three years for the following reasons:

- In the information paper which accompanies the heatmap APRA note that 5 years is a more important time period to review. OnePath notes that three-year returns against the simple reference portfolio do not appear in the concise view of the heatmap and are only visible in the expanded view.

- Simple reference portfolio is a less useful metric over the short-term. The simple reference portfolio methodology results in many MySuper products having a meaningfully different asset allocation, leading to material variations in performance over shorter periods such as three years. OnePath notes that nearly half of the fund families in the heatmap are dark red against on this metric over three years.

- The OnePath SmartChoice MySuper options model CPI+ performance targets over a 10-year timeframe, hence assessment of performance over longer time period is more appropriate and relevant.

- A three-year time period captures only a portion of market cycle and may not reflect fund performance over longer periods.

Notwithstanding the comments above, as noted at the hearing the Trustee continues to identify ways to improve SmartChoice performance within the Lifestage construct.

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OnePath

OP154QON

Question:

Dr LEIGH: Just looking at the disclosure of APRA-level fund data: your investment fees column appears to be blank. How do you get away with not disclosing those investment fees?

Ms Weekes: The investment fees are 50 basis points. I don't believe it's blank—again, I don't want to duel spreadsheets—

Dr LEIGH: We may again have a duelling spreadsheet! Ms Weekes: And I don't want to do that! I'm happy to take it on notice, but our management charges are 50 basis points, and we have a flat $50 fee per year for all Smart Choice Super members.

Answer:

OnePath understands the importance of transparent disclosure and supports disclosure laws. OnePath complies with legal requirements and industry practice regarding the disclosure of investment fees. Fees on OnePath products are reported to APRA and are publicly available in Quarterly MySuper Statistic publications.

OnePath notes that its products are categorised as Lifecycle and are advised to APRA as such.

The User Guide tab for the APRA Heat Map contains the following, which OnePath considers accounts for the absence of investment fees in those cells.

MySuper 8	Single strategy	74%	8.00%	0.50%	0.90%	0.25%	1.70%	1.05%	10.00%	9.00%
MySuper 9	Single strategy	73%	8.90%	1.40%	1.00%	0.40%	1.70%	1.10%	9.00%	8.00%
MySuper 10	Lifecycle								3.00%	4.00%

No numeric values are provided for product performance at the lifecycle product level. For investment metrics, the colour applied at the product level is based on the performance of the underlying lifecycle stages. For fees and costs, the colour applied at the product level reflects the lifecycle stage with the most number of member accounts.

For Illustration

No numeric values are provided for product performance at the lifecycle product level. For investment metrics, the colour applied at the product level is based on the performance of the underlying lifecycle stages. For fees and costs, the colour applied at the product level reflects the lifecycle stage with the most number of member accounts.

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OnePath

OP155QON

Question:

CHAIR: … have OnePath seen any reduction in remuneration for executives or employees over the past 12 months as a consequence of the COVID-19 crisis?

Ms Weekes: Again, I'll take this on notice to confirm. As part of the IOOF group, there were some reductions in executive and board remuneration as a result of COVID, yes. Dan, do you want to elaborate on that?

Mr Farmer: Yes. It's my understanding that the CEO and CFO took a base pay reduction and noncontractual bonuses were cut for the year for senior executives.

Answer:

In recognition that COVID-19 has had an impact on business outcomes and returns to shareholders:

- No discretionary short-term incentives were paid to members of IOOF's Executive Team for the year to 30 June 2020.
- IOOF's Chairman and CEO took a 20% reduction in base pay for 6 months from 1 August 2020.
- All other IOOF Holdings Ltd Directors and the CFO took a 10% reduction in base pay for the same period.