

Financial System Inquiry (FSI)

The Inquiry seeks further information on the following areas:

To what extent is there a trend away from active asset management within asset classes in superannuation funds? Is this a positive or negative development for members?

Defining active asset management

“Active asset management” in the context of this question refers to the use of investment managers who will aim to earn excess returns above the returns of a liquid market index such as the S&P/ASX 300 Accumulation Index, or the UBS Composite Bond Index.

In a broader sense, active asset management can also refer to changes which are made to the allocations to the various asset classes (asset allocation). Furthermore, many Funds will invest in asset types for which there is no replicable benchmark such as unlisted property and infrastructure. Both of these additional activities will result in additional costs, but when executed successfully these activities can add meaningful value to the value of the retirement savings of superannuation fund members, and be used to manage the risks associated with being a passive investor in what is essentially a narrower investment universe.

Any trend away from active asset management is likely to be driven by a focus on cost

To the extent that there is any trend away from active asset management (towards passive management) it is likely to be driven by a focus on cost. This will not necessarily be a positive development for superannuation members.

While active asset management may appear more expensive when costs are looked at in isolation, if done successfully it can result in substantial benefits. This is because investors are both able to capture market opportunities by buying “cheap” assets, and to manage downside risk by lowering allocations to “expensive” assets.

Since its inception in 1988, REST has been successfully employing an active asset management strategy on behalf of its members. REST’s success is due to the inputs of balanced judgement, discipline, experience and patience. Our investment approach requires a robust investment governance and risk management framework, the ongoing review of asset allocation, sector and market exposures within asset classes, and manager selection. Being a successful active investor requires the commitment and capacity to undertake a substantial amount of additional work in comparison to utilising a passive approach, and we believe that there is a strong case for REST being able to continue to deliver excess returns to members because of our long held, and well tested, active asset management approach.

The fundamental principle underlying REST’s active asset management approach is the belief that markets are not always rational and the prices for assets can deviate from fundamental value. History provides us with many examples of this such as the rise in prices being paid for technology stocks before prices subsequently crashed in the early 2000’s, and the over-inflated prices for many global banks and subsequent crash in prices during the Global Financial Crisis. Whilst the passive investor did not have the “tool kit” to either avoid those very expensive stocks, or to invest additional funds after prices had fallen substantially, REST was able to add significant long term value for its members in both these examples due to its active asset management approach. We are able to provide further details as to how REST’s active asset management approach has benefited members in various market conditions upon request.

Academic research relating to the benefits of active asset management will generally focus on the “average” outcome achieved from a large number of investors. We accept that not all investors will possess the necessary attributes, or have the resources available to them, to be able to successfully earn excess returns from active asset management. But we believe that a Fund that has the commitment and capacity to implement a successful active asset management approach should be able to do so in the best interests of its members.

Evidence that REST members have benefited from the use of active asset management approach

As an industry super fund, using active asset management, REST's MySuper investment option, the Core Strategy, has been recognised for competitive long-term performance by independent rating houses. SuperRatings awarded REST Fund of the Year 2014 and Pension of the Year 2014. REST is the first superannuation fund to win both of these two awards.

REST's investment performance has also been recognised by winning two major prizes – Best Super Fund Manager and Best Pension Fund Manager – in the 2013 *Money* magazine Best of the Best Awards which is the first time that one fund has won both awards. Please refer to Annexure A for a list of REST's awards.

REST has been successful in delivering superior returns to its members as result of its active asset management approach. The tables below show the results for REST's Core Strategy (REST's MySuper default option) compared to its Investment Return Objective of CPI + 3% per annum over rolling ten years, and the Median Fund as measured in the SuperRatings' SR50 Balanced (60-76) Index for periods ended 30 June 2014. **All returns shown for REST are after the payment of active asset management fees.**

Core Strategy/MySuper compared to Investment Return Objective

	Since inception 1 July 1988 %pa	20 Year %pa	10 Year % pa	5 Year % pa	3 Year % pa	1 Year % pa
Core Strategy/MySuper	8.89	9.4	8.08	10.55	10.60	13.29
CPI + 3% pa	5.98	5.72	5.77	5.65	5.20	6.02
Excess over CPI + 3% pa	2.91	3.7	2.31	4.90	5.40	7.27

Source: REST, Bloomberg

Core Strategy/MySuper compared to Median Fund

	10 Year % pa	5 Year % pa	3 Year % pa	1 Year % pa
Core Strategy/MySuper	8.08	10.55	10.60	13.29
SuperRatings' SR50 Balanced (60-76) Index median	6.78	9.21	9.06	12.66
Excess over median	1.30	1.34	1.54	0.63

Source: REST, SuperRatings Fund Crediting Rate Survey, June 2014,

Whilst it is not possible to compare REST's results to that of a purely passively invested Fund over the longer term, it is meaningful to compare the results delivered to REST members compared to the Median Fund as follows:

	Core Strategy/ MySuper	Median Fund	Difference
10 Year % pa	8.08%	6.78%	+ 1.30% pa
10 Year cumulative return (not annualised)	117.50%	92.71%	+ 24.79 % over ten years
Ending value of \$10,000 invested 10 years ago	\$21,750	\$19,271	+ \$2,479

The cumulative return delivered to REST members over the ten year period exceeds that of the Median Fund by almost 25% - after the payment of all active asset management fees.

REST’s results from using active asset management within asset classes

Contributing to the overall excellent outcomes from REST members is the use of active investment managers within the relevant major asset classes such as Australian Shares, Overseas Shares and Bonds. The following results have been achieved over the period since October 2002 (which is the earliest date from which specific asset class returns were calculated). **All returns for REST are quoted after the payment of active asset management fees:**

Australian Shares:	REST has delivered excess returns of + 3.2% per annum
Overseas Shares	REST has delivered excess returns of + 2.3% per annum
Bonds	REST has delivered excess returns of + 0.5% per annum

Source: JANA Investment Advisers

One of the arguments used against active asset management is that it is not possible to achieve positive excess returns over the long term. The results discussed above demonstrate that REST has been able to achieve an outcome which has had a meaningful positive impact to the retirement savings of its members over a long period of time by applying an active asset management approach.

Conclusion

To the extent that there is any trend away from active asset management (towards passive management) it is likely to be driven by a focus on cost. This will not necessarily be a positive development for superannuation members.

While active asset management may appear more expensive when costs are looked at in isolation, if done successfully it can result in substantial benefits. This is because investors are both able to capture market opportunities by buying “cheap” assets, and to manage downside risk by lowering allocations to “expensive” assets.

Being a successful active investor requires the commitment and capacity to undertake a substantial amount of additional work in comparison to utilising a passive approach, and we believe that there is a strong case for REST being able to continue to deliver excess returns to members because of our long held and well tested active asset management approach.

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Annexure A

Issuer	Award
2014	
SuperRatings	<ul style="list-style-type: none"> • Fund of the year • Pension of the year • Super (Super and Select products) finalist • Platinum rating 2014: REST Super – MySuper
<i>Money</i> magazine	<ul style="list-style-type: none"> • Best Super Fund Manager 2014 • Best Pension Fund Manager 2014
Canstar	<ul style="list-style-type: none"> • 5 stars starters category REST Select • 4 Stars Low and Medium Balance category Account based pensions
Morningstar	REST Super Core Strategy ranked #1 in the 7 years Multi Sector Growth. Also several investment options have a rating category of 5 and 4 stars.
2013	
Customer Service Institute of Australia (CSIA) 'ESI' Award – Superannuation	REST was awarded the 'easy to do business with' award. 2013
SelectingSuper	REST Super was named the Long Term Performance Award winner (2013)
Heron Partners	<ul style="list-style-type: none"> • '5 Heron Quality Stars' • REST Super, Personal, Acumen and Pension • 'Top Ten Products' for Investment Features • REST Super, Personal, Acumen and Pension
SuperRating	<ul style="list-style-type: none"> • Finalist in 'Pension of the Year' • 10 Year Platinum Performance - Personal & Industry Plans • 7 Year Platinum Performance - Personal & Industry Plans • 5 Year Platinum Performance - Pension Plan • Platinum Rating for 2013
<i>Money</i> magazine	Best Balanced Super Fund
ChantWest	5 Apples out of 5 for 2013 for: <ul style="list-style-type: none"> • REST • REST Acumen • REST Pension
2012	
ChantWest	5 Apples out of 5 for 2012 for REST, REST Personal, REST Pension, Acumen
Heron Partnership	<ul style="list-style-type: none"> • 5 out of 5 Quality Star Rating 2012 – REST Industry Super, REST Industry Super Personal & Acumen

	<ul style="list-style-type: none"> • REST Industry Super and REST Industry Super Personal – classified as a Top Ten Personal Product • REST Acumen – classified as a Top Ten Corporate Product
<i>Money magazine</i>	Best Balanced Super Fund for the 2012 Best of the Best Awards
SuperRatings	<ul style="list-style-type: none"> • 5 Year Platinum Performance for 2007-2012 • 7 Year Platinum Performance for 2005-2012 • Pension Platinum Rating for 2012 • Acumen Super Platinum Rating for 2012 • Platinum Rating for 2012 - Acumen, REST Industry, REST Personal, REST Pension
SelectingSuper	<ul style="list-style-type: none"> • Retirement Product of the Year – REST Pension • Deluxe Choice 2011 • ‘Pension Fund of the Year’ • Long Term Performance Award Winner 2011 - REST Industry Super • Personal Super Product of the Year – REST Personal Super • Deluxe Choice Finalist 2011 • Workplace Super Product of the Year – REST Industry Super • Deluxe Choice Finalist 2011 • Super Fund of the Year Finalist 2011 • AAA Quality Rating - REST, Personal & Acumen
2011	
SelectingSuper	<ul style="list-style-type: none"> • AAA Quality Rating 2011 – Industry, Personal, Pension, Acumen • Retirement Product of the year Deluxe Choice 2011 (REST Pension) • Long Term Performance Award Winner 2011 REST Industry Super
<i>Money magazine</i>	Best Growth Super Fund 2011
SuperRatings	<ul style="list-style-type: none"> • 7 Year Platinum Performance for 2004-2011 • SuperRatings Super Of the Year Finalist for 2011 • Pension Platinum Rating for 2011 • Platinum Rating for 2011 • Acumen Super Platinum Rating for 2011
ChantWest	<ul style="list-style-type: none"> • 5 Apples out of 5 for 2011 for REST, REST Personal, REST Pension, Acumen in small plans • 4 Apples out of 5 for Acumen in medium and large plans divisions
Heron Partnership	5 out of 5 Quality Star Rating 2010 – REST, REST Personal, & Acumen
2010	
SelectingSuper	<ul style="list-style-type: none"> • Personal Super Product of the Year – Deluxe Choice Finalist 2010

	<ul style="list-style-type: none"> • Fund of the Year Finalist 2010 • Workplace Super Product of the Year – Deluxe Choice 2010 (Industry) • Retirement Product of the Year – Deluxe Choice 2010 (REST Pension) • AAA Quality Rating 2010
AFR Smart Investor Magazine	Industry Fund of the Year 2010
SuperRatings	<ul style="list-style-type: none"> • Fund of the Year 2010 • 7 Year Platinum Performance 2003-2010 • Platinum Rating 2010
Heron	5 out of 5 Quality Star Rating 2010 – REST, REST Personal, REST Pension & Acumen
ChantWest	<ul style="list-style-type: none"> • 5 Apples out of 5 for 2010 for REST, REST Personal, REST Pension, Acumen in small and medium plan divisions • 4 Apples out of 5 for Acumen in large plan division
<i>Money</i> magazine	<ul style="list-style-type: none"> • Best Superannuation Fund Manager 2010 • Best Growth Super Fund 2010
2009	
AFR Smart Investor Magazine	Industry Fund of the Year 2009
SuperRatings	<ul style="list-style-type: none"> • Platinum Rating 2009 • 5-Year Platinum Performer 2009 • Fund of the Year 2009 • AAA Quality Rating 2009
ChantWest	<ul style="list-style-type: none"> • 5 Apples out of 5 for 2009 for REST, REST Personal, REST Pension, Acumen in small plans and medium plans divisions • 4 Apples out of 5 for Acumen in large plans division
Heron	5 out of 5 Quality Star Rating 2009 – REST, REST Personal, REST Pension & Acumen
2008	
SuperRatings	<ul style="list-style-type: none"> • Fund of the Year Finalist 2008 • Platinum Rating 2008 • 5-Year Platinum Performer 2008
Selecting Super	AAA Quality Rating 2008

ChantWest	<ul style="list-style-type: none"> • 5 Apples out of 5 for 2008 for REST, REST Personal, REST Pension, and Acumen in small plans and medium plans divisions • 4 Apples out of 5 for Acumen in large plans division
Heron	5 out of 5 Quality Star Rating 2009 – REST, REST Personal, & Acumen
2007	
SuperRatings	<ul style="list-style-type: none"> • Fund of the Year – Finalist 2007 • Platinum Rating 2006/2007
ChantWest	5 Apples out of 5 for 2007 for REST, REST Personal, & REST Pension
<i>Money</i> magazine	<ul style="list-style-type: none"> • Best Capital Stable Super Fund – Silver 2007 • Best Growth Super Fund – Silver 2007
2006	
SuperRatings	<ul style="list-style-type: none"> • Fund of the Year - Runner-Up 2005/2006 • Platinum Rating 2005/2006
Asset Magazine	Industry Fund of the Year 2006
<i>Money</i> magazine	<ul style="list-style-type: none"> • Best Superannuation Fund Manager 2006 • Best Conservative Super Fund – Gold REST Balanced option 2006 • Best Growth Super Fund – Gold REST High Growth option 2006 • Best Balanced Super Fund – Gold REST Diversified option 2006
2005	
SuperRatings	Platinum Rating
Personal Investor Magazine	Industry Fund of the Year
<i>Money</i> magazine	<ul style="list-style-type: none"> • Best Superannuation Fund 2005 • Best Capital Stable Fund - REST Capital Stable option 2005 • Best Balanced Fund - REST Core Strategy option 2005 • Best Growth Fund - REST High Growth option 2005 • Best International Shares Fund REST Shares option 2005

