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Stockspot response to the Your Future, Your Super review consultation paper

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Stockspot (https://www.stockspot.com.au) is Australia's first and most experienced online investment adviser. We were founded in 2013 with a mission to help more Australians access expert investment advice and portfolio management.

We're the largest online investment advice (robo-advice) service in Australia. We help more than 13,000 clients and have more than $600 million in funds under management.

Stockspot uses ETFs (exchange traded funds) as the basis of how we invest funds on behalf of clients. The funds are invested in a range of portfolios from most conservative to aggressive growth.

In 2013, Stockspot published the first Stockspot *Fat Cat Funds Report*. Now in its tenth year, the report looks at Australia's worst-performing and the best-performing superannuation funds. It's the only report in Australia that analyses such a wide breadth of superannuation options (more than 500 options in 2022), and compares performance based on risk levels.

Since 2015, Stockspot has also published the *Stockspot ETF Report* where we present our findings after analysing over 200 ETFs, looking at factors like fees, performance, size and activity. We also analyse recent ETF market trends, the best-performing ETFs, and the growth in certain ETF sub-sectors such as thematics and sustainable ETFs.

Thank you for providing this opportunity to contribute.

Chris Brycki
Founder and CEO

Enid Lal
Head of Superannuation & Partnerships

Marc Jocum
Senior Manager - Investments and Business Initiatives

1. **Does the measurement of *actual return* using strategic asset allocation affect risk-taking behaviour by superannuation trustees?**

   Measuring *actual return* using strategic asset allocation (SAA) leads to a strong demotivation to underperform so more funds will rightly stick close to the SAA and not take active bets unless they have strong conviction.

   This is in the best interests of members given the strong evidence against active management across most time horizons and asset classes.

   As MySuper products are default super products, members should expect a similar experience if taking similar risk. The measures will help to achieve this objective.

2. **Does the current set of indices used to calculate *benchmark returns* unintentionally distort investment decisions or reduce choice for members? If so, is there a way to adjust the benchmark indices while maintaining a clear and objective performance test?**

   There needs to be clear and simple benchmarks against which to compare performance. The current benchmarks meet this criteria.

   As MySuper products are default super products, members should expect a similar experience if taking similar risk. The measures help to achieve this objective.

3. **Does the calculation of *actual RAFE* and *benchmark RAFE* discourage non-performance related product features that members may value (such as customer service or platform products)? If so, can this be addressed without diminishing the test's focus on performance?**

   Funds should be able to provide ancillary services provided they meet the performance test. The performance test simply sets a 'minimum performance standard'.

4. **What are the longer-term impacts of the performance test on market dynamics and composition? How will these factors impact on long-term member outcomes?**

   As MySuper products are default super products, members should expect a similar experience if taking similar risk. The measures help to achieve this objective.

   The performance test should lead to lower fees and less variance in returns over the long run which is a positive outcome.

5. **Is there evidence to indicate that the notification and website publication requirements have been effective at encouraging members to consider, and switch to, alternative products? Are there ways this could be improved?**

In any other category (for example, medication), failing a performance test of this nature would lead to the product being recalled/pulled from the market.

The fact that a significant amount of money has remained in these underperforming funds shows that there is a clear market failure. Super is not a category where consumers are making an informed choice. Members will often stay in a dud product due to a combination of confusion/friction/apathy.

Our view is that products that fail twice should be shut permanently and members provided a tax beneficial option to transfer into another fund. The current measures have been effective but there should be a stronger deterrent for underperformance.

6. **Have the consequences been effective at encouraging trustees to improve their performance or merge with better performing funds? Are there ways this could be improved?**

In any other category (for example, medication), failing a performance test of this nature would lead to the product being recalled/pulled from the market.

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Our view is that products that fail twice should be shut permanently and members provided a tax beneficial option to transfer into another fund. The current measures have been effective but there should be a stronger deterrent for underperformance.

7. **Are the measures in place to resolve underperformance sufficient given the potential for members to be stapled to these products? How can the system best support members in underperforming products?**

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The fact that a significant amount of money has remained in these underperforming funds shows that there is a clear market failure. Super is not a category where consumers are making an informed choice. Members will often stay in a dud product due to a combination of confusion/friction/apathy.

Our view is that products that fail twice should be shut permanently and members provided a tax beneficial option to transfer into another fund. The current measures have been effective but there should be a stronger deterrent for underperformance.

8. Are there any significant issues to be expected when the test is extended to TDPs? If so, how could these issues be addressed?

When the test is extended to multi-asset TDPs, benchmarking will also be critical. There needs to be clear and simple benchmarks against which to compare performance. The current benchmarks meet this criteria.

9. What would be the impact of extending the current performance test to other Choice products (such as single sector or retirement products)? How could any issues be addressed?

When the test is extended to single sector funds, benchmarking will also be critical. There needs to be clear and simple benchmarks against which to compare performance. The current benchmarks meet this criteria.

10. Does the comparison tool adequately inform members and prompt a behavioural response? Is the tool effective at informing new employees of their options when entering the workforce, including those who do not have an existing superannuation account?

Products are not currently compared on a like-for-like risk basis. This is likely to lead to the unintended consequence of encouraging members to switch to higher risk funds. Refer to our annual *Fat Cat Funds Report* which explains our methodology for asset categorisation.

11. To what extent would altered or additional metrics, or improved functionality, make the tool more effective while ensuring it remains simple and clear? What more can be done to ensure that new employees are able to choose high-performing superannuation product that are appropriate for their needs?

Members should be able to compare at least:

- MySuper products
- Diversified choice products within risk categories (i.e. 20-40% growth assets, 40-60% growth assets et cetera)
- Single asset funds covering the major categories (Australian shares, global shares, fixed interest, cash, property and infrastructure).

Products are not currently compared on a like-for-like risk basis. This is likely to lead to the unintended consequence of encouraging members to switch to higher risk funds. Refer to our annual *Fat Cat Funds Report* which explains our methodology for asset categorisation.

12. As the test is applied to more superannuation products, should the comparison tool also be extended? Considering the volume and complexity of Choice products, how could the tool be extended in a way that is meaningful and digestible to members?

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- MySuper products
- Diversified choice products within risk categories (i.e. 20-40% growth assets, 40-60% growth assets et cetera)
- Single asset funds covering the major categories (Australian shares, global shares, fixed interest, cash, property and infrastructure).

Products are not currently compared on a like-for-like risk basis. This is likely to lead to the unintended consequence of encouraging members to switch to higher risk funds. Refer to our annual *Fat Cat Funds Report* which explains our methodology for asset categorisation.

13. There is no Question 13 on the consultation paper.

This section has been intentionally left blank.

14. To what extent are employers putting into practice processes to seek stapled fund details from the ATO? How has the implementation of stapling changed onboarding, software and payroll processes for new employees?

This section has been intentionally left blank.

15. Are there any barriers in the current framework to achieve the intent of the stapling reform?

This section has been intentionally left blank.

16. What is the actual, or likely, impact of stapling on insurance coverage?

This section has been intentionally left blank.

17. **To what extent has the BFID required trustees to change their processes and procedures? Has this caused any unintended consequences or impacted member outcomes in any way?**

This section has been intentionally left blank.

18. **Are there certain types of expenditure or activity that trustees are particularly concerned about being able to prove compliance with the BFID in respect of? Why is it difficult to demonstrate compliance? Should there be a materiality threshold?**

This section has been intentionally left blank.

19. **Is the reverse onus of proof the most appropriate way to achieve the objective of improving member outcomes?**

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