Super Funds Review: Insights from 11th Edition

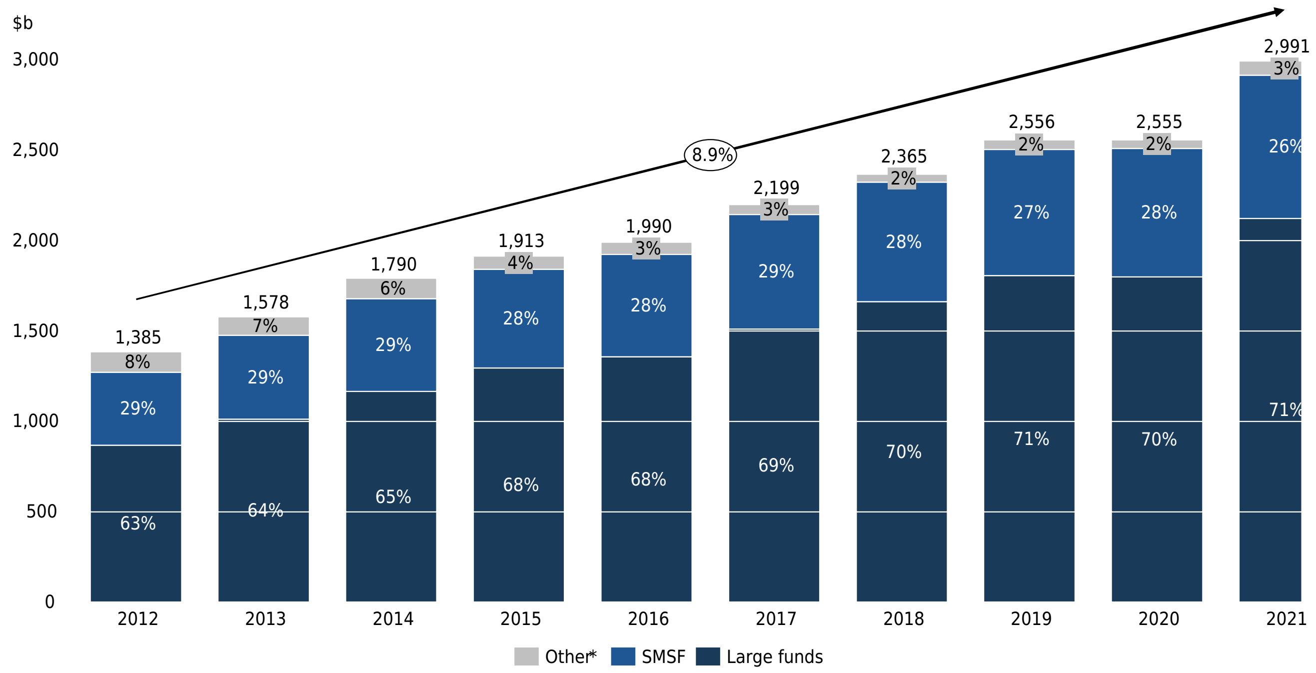
April 21, 2022

NMG have just released our 11th annual Super Funds Review, which is an in-depth look at the size and shape of the sector.

The data to the end of June 2021 shows an industry in overall good health, but there are challenges for some participants.

Overall assets grew strongly to reach $3.0 trillion, but this was entirely driven by investment returns as net cash flows into super were negative for the first time in a decade.

Exhibit 1: System net assets



Source: NMG Super Funds Review

While employer contributions were steady and member contributions actually rose. This was offset by higher than normal 'leakage' causing overall negative flows for the year:

- Higher benefit payments due to the 2nd year of the early release scheme
- Higher taxes due to stronger than normal investment returns

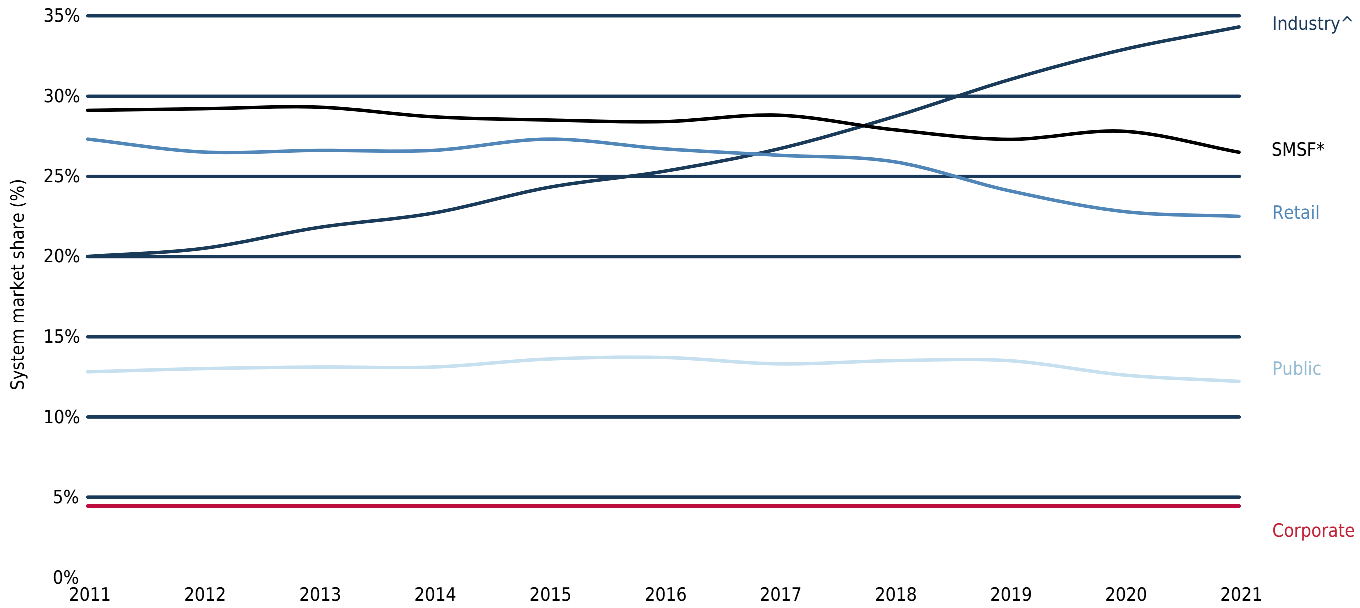
However, this shows the system is working. Benefit payments have steadily increased and (excluding the early release scheme) as share being paid as a regular income stream rather than taken as a lump sum continues to increase as average balance at retirement also increase with the maturity of the system.

We expect net flows should rebound into positive territory in the next few years, assuming no major change in policy:

- The early release scheme won't repeat
- Employer contributions will steadily rise as the Super guaranteed rate increases each year
- Benefit payments will remain subdued as the lower minimum pension drawdown requirements are extended into next year
- Taxes will normalize (unless investment returns take off)

Within the system, industry funds are continuing to win, with legacy retail master trusts continuing to see high levels of outflows. However, the retail sector maintained its share at 23% as outflows started to stabilize and strong flows were seen into more modern wrap products. SMSF's lost share as the rate of formation of new funds reduced and as benefit payments are higher than average given the older demographic and higher average balances per member.

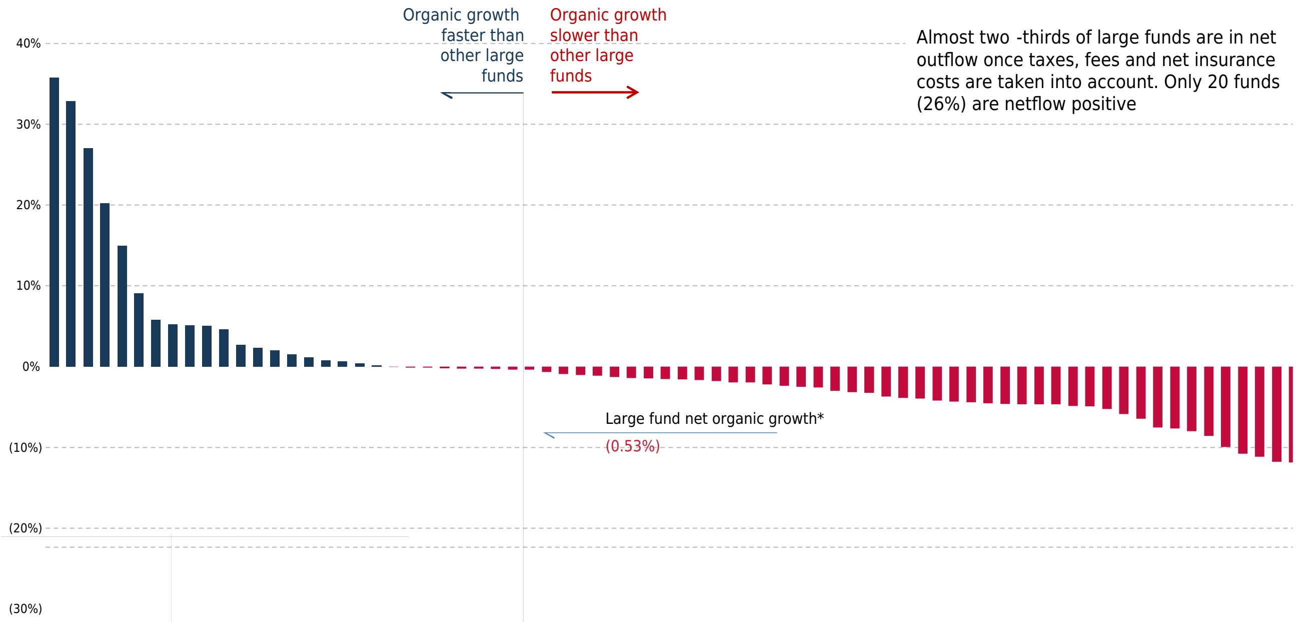
Exhibit 2: Market share by segment



Source: NMG Super Funds Review

Looking deeper, a small number of funds are winning flows. Around 2/3 of funds were in net outflows (after taxes), with only 20 funds being positive in terms of net flows. This concentration of winners is further supported by the continuation, indeed acceleration, of fund consolidation. We've gone from 81 funds in our large fund universe (i.e. funds > $1bn) last year, to 77 this year. If all the mergers which were announced take place this falls to 66 and we believe this will head towards 40 over the next 5 years.Looking deeper, a small number of funds are winning flows. Around 2/3 of funds were in net outflows (after taxes), with only 20 funds being positive in terms of net flows. This concentration of winners is further supported by the continuation, indeed acceleration, of fund consolidation. We've gone from 81 funds in our large fund universe (i.e. funds > $1bn) last year, to 77 this year. If all the mergers which were announced take place this falls to 66 and we believe this will head towards 40 over the next 5 years.

Exhibit 3: Large fund net organic growth rate



Source: NMG Super Funds Review

This consolidation makes a big difference to the proportion of net assets which are managed internally by super funds. It’s already at 20% and we believe it will head up to 30% fairly quickly as funds which have >$50bn in assets are much more willing and able to manage money in internal teams – for domestic equity, fixed income and cash, but increasingly in global equities and even alternative investment products (e.g. private equity and infrastructure).

A few clients have asked us what this says about the Your Future Your Super changes, particularly the performance test and stapling. With stapling, we can see the number of accounts continue to reduce as duplication is taken out of the system, so that reform is clearly starting to work. Unfortunately, it’s too soon to see the impact of the performance test – we will see the first impacts in our 12th edition this time next year!

By [Andrew Cummins]

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