



INFORMATION PAPER

Combining MySuper product performance histories – APRA’s approach

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Chapter 1 - Introduction

The *Your Future, Your Super* measures (YFYS measures) came into effect on 1 July 2021 and are designed to ensure superannuation works in the best financial interests of all members.¹ APRA is supporting the Government in implementing the *Your Future, Your Super* measures in three key areas:

1. Administering the annual performance test ('performance test') for superannuation products and holding funds to account for underperformance, which includes enhancing industry transparency through publication of the results of the performance test;
2. Providing superannuation data to the Australian Tax Office ('ATO') for inclusion in the YourSuper comparison tool ('comparison tool'), empowering members to choose a well-performing product that meets their needs; and
3. Ensuring investment governance and fund expenditure is in line with members' best financial interests

The focus of this paper is on APRA's approach to administering the performance test, where APRA has flexibility in administering the performance test, and APRA's approach to providing investment performance data to the ATO for inclusion in the comparison tool.

The *Your Future, Your Super—Addressing Underperformance in Superannuation* Regulations ('the Regulations') outline the methodology for the performance test. The performance test will apply to MySuper products from 1 July 2021 and to trustee-directed products ('TDPs') from 1 July 2022.

The performance test is a two-part test and involves:

- (i) an assessment of investment performance relative to a benchmark portfolio created using the product's strategic asset allocation; and
- (ii) an assessment of administration fees charged in the last financial year relative to the median fee charged for the category of product.

If the product underperforms the combined test by more than 0.50%, the product is deemed to have failed the performance test. Where a product fails the performance test in two consecutive years, the RSE licensee will be prohibited from accepting new beneficiaries into that product. Investment performance will be assessed over a seven year performance timeframe in 2021 and an eight year timeframe thereafter.

¹ Treasury Laws Amendment (Your Future, Your Super) Act 2021 received royal assent on 22 June 2021

Chapter 2 - Combining the investment performance of products in the performance test

There are two situations where performance may need to be combined to facilitate the administration of the performance test:

1. ***Within-product changes***: where there have been changes to the structure or nature of the product (for example, single strategy to lifecycle) but the product continues under an existing MySuper authorisation. The Regulations require performance to be combined for these types of changes and APRA may issue a determination outlining how the performance will be combined.²
2. ***Across-product changes***: where a product has ceased and members have been transferred into a new product under a new MySuper authorisation. The Regulations provide APRA with flexibility to make a determination to combine performance for these types of changes.³

The purpose of combining performance is to allow the performance test to be appropriately applied in a range of situations where a product should be treated as having one continuous history (so performance history does not reset as a result of certain product changes). It also aims to address circumstances where trustees have intentionally closed a product and opened a new but similar product in order to bypass the consequences of failing one or more performance tests. The flexibility within the Regulations will ensure that APRA can appropriately assess all MySuper products under the performance test.

To achieve the policy intent of the performance test in practice, APRA has developed a number of principles which will be followed when determining whether to combine the performance of multiple MySuper products. APRA has sought to ensure that the principles are transparent and will ensure similar scenarios are treated consistently.

Principles for combining the performance of multiple MySuper products

1. **Avoiding product ‘phoenixing’**: In line with the policy intent, the choice of when to or how to combine the performance of multiple MySuper products must not facilitate situations where trustees intentionally close a product and open a new but similar product to avoid being assessed in the performance test. APRA will consider whether new MySuper products should be granted authorisation in such circumstances.

² See regulations 9AB.12(5) and 9AB.14(10) of the Regulations.

³ See regulation 9AB.7(4) of the Regulations.

2. **Identifying predecessor product to create combined product:** Combining the performance of multiple MySuper products should use the actual return history of products where possible, avoiding using amalgamated data or creating blended returns using data from multiple products. Where two or more products are combined into a new product, a predecessor product should be identified. The following criteria will be considered when determining the predecessor product:
 - *Continuity of control* – for example where there is consolidation of products under trustees within the same corporate group, APRA will consider identifying the predecessor product as the one with the same Trustee or management as the successor product;
 - *Continuity of product design* – for example, where two products are consolidated into one, APRA will consider identifying the predecessor product as the one with materially similar product design (such as the investment strategy) as the successor product;
 - *Members impacted* – for example, where two products are consolidated into one, APRA will consider identifying the predecessor product as the one with the majority of members.

3. **Continuation of return history achieved by the MySuper product:** Combining the performance of multiple MySuper products should not allow the performance achieved by a continuing product to be replaced with the performance achieved by another product in the product range. Where a Trustee replaces the investment strategy of a MySuper product with the investment strategy of another product within the product range, the investment performance of the MySuper product will not be replaced by the performance of the other product in the range.

4. **Performance of continuing MySuper products should be maintained:** When a MySuper product continues (and there is no product reauthorisation) as a result of a merger or successor fund transfer, the historical performance of the continuing product should be assessed for the performance test, unless exceptional circumstances exist.

Examples of scenarios where APRA will consider issuing a determination to combine the performance of multiple MySuper products

Scenario	Approach
Where there is a merger or successor fund transfer, with one existing MySuper product continuing	Maintain history of the continuing product, a determination on combining the performance of multiple products is not required
Where there is a merger or successor fund transfer with more than one product continuing	Maintain history of the continuing products by making a determination to combine performance histories where required

Scenario	Approach
Change of registrable superannuation entity (RSE) where continuity of control has been established	Maintain history by making a determination to combine the performance history across products
Change in Trustee where continuity of control has been established	Maintain history by making a determination to combine the performance history across products
Product consolidation with one product continuing and others ceasing	Maintain history of the continuing product, a determination on combining the performance of multiple products is not required
Product consolidation with no continuing products and new product created	Make a determination to combine the performance of the new product with the performance of the predecessor product with the most members

Chapter 3 - Methodology for combining investment performance in the performance test

APRA has developed a methodology to be able to administer the performance test where there have been within-product changes (for example a change in lifecycle stages) or across-product changes where there has been a change to the product design (for example a merger where a new product is created). The proposed methodology has a number of key principles which are unchanged across the different examples of product changes:

1. The product-level performance of a MySuper product is calculated on a quarterly basis using the performance of the underlying option(s).
2. A product's performance is calculated using data reported to APRA on a quarterly basis, with the exception of any quarters where there has been a change in the structure or the nature of the product (described in the Regulations as a "change of lifestage"). For such quarters, the performance is calculated by splitting the quarter into partial periods to reflect the structure of the product before and after the change.
3. The benchmark portfolio for the first period after the change is calculated with reference to the strategic asset allocation after the change. For lifecycle products, the product-level returns for the first period are calculated by weighting the value of investments in each lifecycle stages after the change. This is in contrast to the formula specified in the Regulations which calculates the benchmark portfolio with reference to the strategic asset allocation or value of investments in lifecycle stages from the prior period but ensures a benchmark is created that is representative of the new strategy.
4. Where unlisted index returns are required to calculate partial-period benchmark returns and the required unlisted index level is not available at the partial period date, an index value will be derived at that date through linear interpolation using the index values available immediately before and after that date.

Appendix A provides an illustrative example of how a product that changed from a single strategy to a lifecycle strategy over the period of the performance test would be assessed.

Chapter 4 - Investment performance in YourSuper comparison tool

The comparison tool displays the Net Return achieved by MySuper products over a three, five and eight-year timeframe (seven-year timeframe during 2021/22 financial year only). The Net Return in the comparison tool will reflect investment performance achieved across the entirety of a MySuper product's history from the September 2021 release of the tool.

APRA have developed an approach for combining performance for display in the comparison tool covering a range of product changes (outlined below), with the aim of applying the same principles for combining investment performance of products in the performance test, i.e.

- focusing on continuity of control;
- using actual returns delivered by the MySuper product; and
- focusing on the returns that the majority of members achieved while avoiding using amalgamated data from multiple products.

The methodology for combining performance in the comparison tool is, by necessity, different to the methodology for combining performance in the performance test, as the comparison tool displays investment performance at the investment option level while the performance test is an assessment of investment performance at the product level.

The below tables outline the scenarios where APRA has combined performance for the purposes of the comparison tool and the approach taken.

Within product changes	
Type of change	Approach
Single strategy to a lifecycle strategy	Present investment performance for each lifecycle stage by: Combining the net returns of the new lifecycle stages from the effective date of strategy change with the net returns of the predecessor single strategy
Lifecycle strategy to a single strategy	Present investment performance for the single strategy by: Combining the net returns of the single strategy from the effective date of strategy change with that of the predecessor lifecycle stage with the greatest number of members

Within product changes	
Where the investment strategy of a MySuper product has been replaced with the investment strategy of another investment option in the Fund's product offering (e.g. a Trustee's MySuper product changes from the Balanced option to the Growth option)	Present the investment performance reported to APRA which consists of: Net returns generated by the current investment strategy from the effective date of strategy change, and the net returns generated by the predecessor strategy before that date.
Change in lifecycle stages in a lifecycle product (where a single predecessor lifecycle stage can be identified for each new lifecycle stage)	Present investment performance for each lifecycle stage by: Combining the net return of the new lifecycle stages from the effective date of strategy change with the net returns of the relevant predecessor lifecycle stage
Change in lifecycle stages in a lifecycle product (where there are multiple predecessor stages for each new lifecycle stage)	Present investment performance for each lifecycle stage by: Combine the net return of the new lifecycle stages from the effective date of strategy change with the net return of the relevant predecessor lifecycle stage with the most members

Across product changes	
Type of change	Approach
Where there is a merger or successor fund transfer, with one existing MySuper product continuing	Maintain history of the continuing product
Where there is a merger or successor fund transfer with more than one product continuing	Maintain history of the continuing products and combining performance histories of multiple products where required
Change of Registrable Superannuation Entity (RSE)	Maintain history by combining performance across products
Change in Trustee	Maintain history by combining performance across products
Product consolidation with one product continuing and others ceasing	Maintain history of the continuing product
Product consolidation with no continuing products and new product created	Combine new product performance with the predecessor product with the most members

Appendix A – Simple example of combining product methodology

Product A is a single strategy MySuper product that changes to a lifecycle MySuper product with two lifecycle stages after 28 February 2017. The Regulations require products that have changed from a single strategy to a lifecycle product to be assessed over a continuous period and the Regulations provide APRA with flexibility on how to combine the performance across both strategies.

As Product A changed its strategy mid-quarter, APRA assess the performance of the product for the March 2017 quarter over two separate periods, one from 1 January 2017 to 28 February 2017 and one from 1 March 2017 to 31 March 2017.

1 January 2017 to 28 February 2017

As per the Regulations, Product A is assessed as a lifecycle product with one lifecycle stage, using its strategic asset allocation at 31 December 2016 to calculate the return on the benchmark portfolio.⁴

1 March 2017 to 31 March 2017

Product A is assessed as a lifecycle product with two lifecycle stages. The strategic asset allocation of the single strategy product at 31 December 2016 is not an investment strategy that relates to either of the two new lifecycle stages. The strategic asset allocation data reported to APRA at 31 March 2017 is the first strategic asset allocation for the two lifecycle stages. The benchmark return for each lifecycle stage for this period is created with reference to the strategic asset allocation data at 31 March 2017.⁵

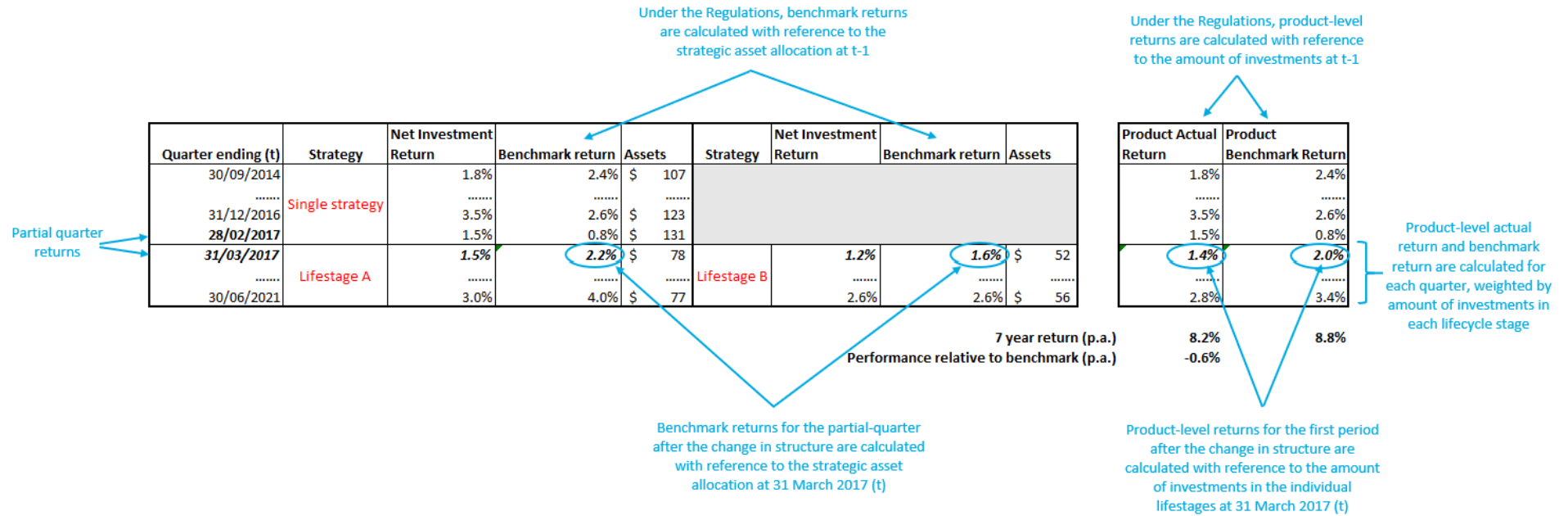
The product level actual return and benchmark return are generally created by applying a weighting to the lifestage-level returns based on the amount of investments in each stage at the end of the previous quarter. As the lifecycle stages did not exist at 31 December 2016, the lifestage level returns are weighted using the amount of investments in each lifecycle stage at 31 March 2017.⁶

⁴ The meaning of "lifecycle Part 6A product" is set out in regulation 9AB.3 of the Regulations.

⁵ APRA will make a determination under regulation 9AB.14(10) of the Regulations to specify modifications of the benchmark formula in regulation 9AB.14(2).

⁶ APRA will make a determination under regulation 9AB.12(5) of the Regulations to specify modifications of the actual return formula in regulation 9AB.12(2).

Pictorial example





APRA