



# TECHNICAL PAPER

## MySuper Heatmap

16 December 2021

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# Contents

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<b>Introduction</b>	<b>4</b>
<b>Chapter 1 - Your Future, Your Super performance test</b>	<b>5</b>
1.1 Product closures	5
1.2 Drivers of underperformance	7
<b>Chapter 2 - Investment returns</b>	<b>9</b>
2.1 Investment return metrics	9
2.2 Benchmarking investment returns	10
2.3 Impact of poor returns on outcomes for members	13
<b>Chapter 3 - Fees and costs</b>	<b>14</b>
3.1 Total fees and costs	14
3.2 Administration fees	15
<b>Appendix A - Calculating heatmap performance</b>	<b>17</b>
<b>Appendix B – List of MySuper products with average performance below heatmap benchmarks over 7 years</b>	<b>18</b>
<b>Appendix C – Asset class benchmarks</b>	<b>21</b>

# Introduction

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The MySuper Heatmap (the Heatmap) provides insights into areas of superannuation that are central to delivering outcomes for members: investment returns, fees and costs and the sustainability of outcomes to members. The Heatmap provides benchmarking of MySuper products on multiple dimensions, including against peers, to identify areas for improving outcomes delivered to members.

APRA has now published four iterations of the Heatmap since 2019 and will continue to publish heatmaps to hold RSE licensees accountable for the performance they deliver and for meeting their legal and prudential obligations to members.

The annual *Your Future, Your Super* performance test (the YFYS performance test) was conducted in August 2021. The YFYS performance sets a clear, legislated performance benchmark that superannuation products are required to meet in order to pass the test. The YFYS performance test protects members by imposing greater consequences for RSE licensees of products that fail consecutive performance tests.

RSE licensees must manage their investments in the best financial interests of members. Together, the performance test and Heatmap enable APRA to drive a culture of continuous improvement across RSE licensees, to eradicate underperformance and ensure that RSE licensees continue to work to improve the retirement incomes for all members.

Chapter 1 of this Paper describes key observations and findings from the inaugural YFYS performance test. Chapters 2 and 3 discuss the Heatmap findings across investment returns and fees and costs respectively. APRA has also published Technical Paper – *Choice Heatmap* to accompany this paper.



## APRA expectation

RSE licensees should use the information in the Heatmap to consider whether the MySuper products deliver good financial outcomes to beneficiaries and to take prompt actions to:

- investigate drivers of performance; and
- address poor performance.

# Chapter 1 - Your Future, Your Super performance test

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The Government's first annual YFYS performance test for MySuper products was conducted in August 2021. The performance test consists of two parts:

- an assessment of investment performance over a 7-year time horizon in 2021 (over eight years thereafter); and
- an assessment of administration and advice fees, costs and taxes charged to a representative member with a \$50,000 account balance over the previous financial year (RAFE).

If the product's combined result is -0.50% or lower, the product fails the performance test.

13 MySuper products failed the performance test in 2021 (comprising 1 million member accounts and \$56 billion in members' benefits).

## 1.1 Product closures

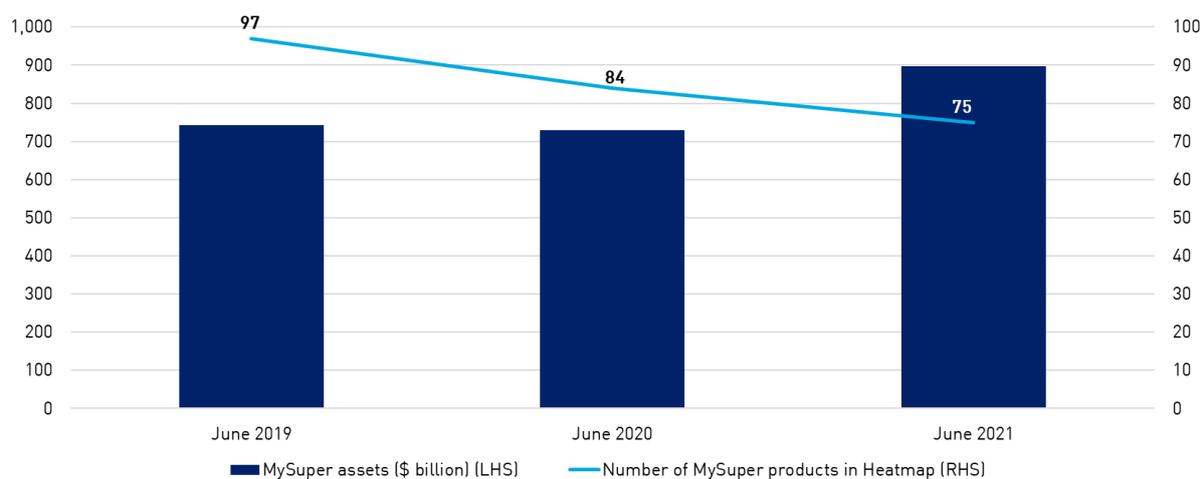
**Since December 2019, 22 MySuper products have closed.**

In recent years, APRA has encouraged industry consolidation to drive better retirement outcomes for members. *Figure 1* displays the number of MySuper products and the total assets of these products in the MySuper Heatmaps published in 2019, 2020 and 2021.

Since APRA published the MySuper Heatmap, 22 MySuper products (comprising of 1.3 million member accounts and \$41.8 billion in member benefits) or roughly one-fifth of MySuper products have closed (as illustrated in *Figure 1*). This is a result of APRA's continued supervisory intensity to improve outcomes for members. Previous MySuper Heatmaps have identified that most of the 22 products have had either poor investment returns or high fees or both.

Of these 22 products, three products that failed the YFYS performance test have since closed (comprising 73,800 member accounts and \$3.7 billion in members' benefits at 30 June 2021).

**Figure 1. MySuper total assets (at 30 June) and number of MySuper products<sup>1</sup>**



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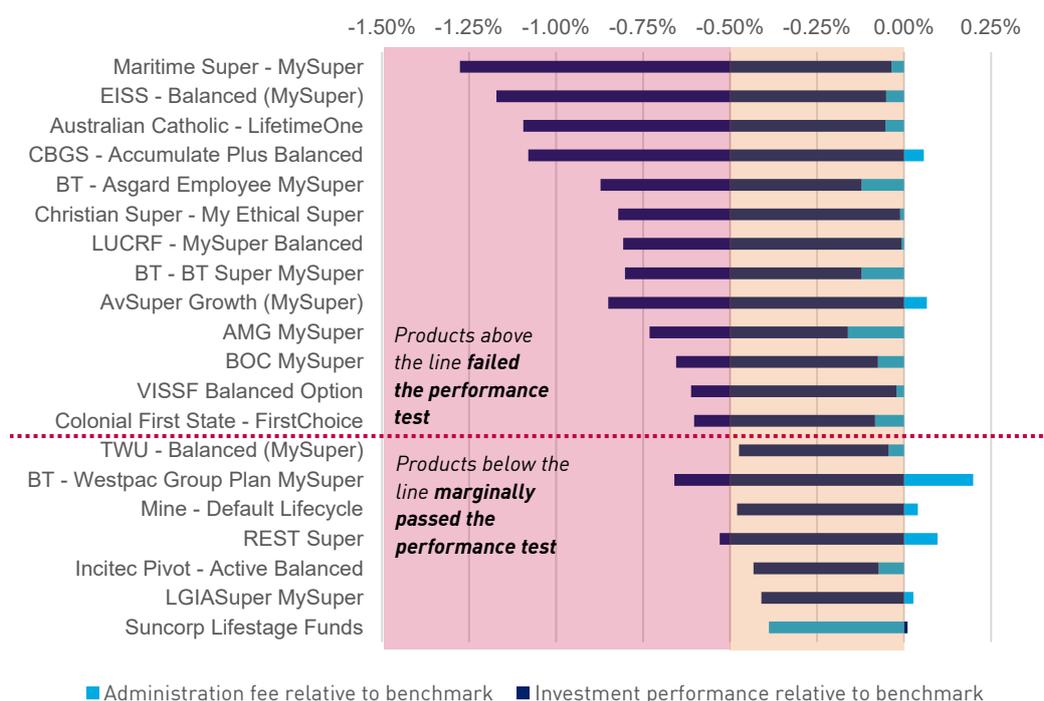
<sup>1</sup> The number of MySuper products are as at the release of the respective Heatmaps.

## 1.2 Drivers of underperformance

Investment returns are the primary driver of underperformance.

*Figure 2* displays the YFYS performance test results (August 2021) for the 13 MySuper products that failed and seven products that marginally passed, including their results in the investment and administration fee components of the test.

**Figure 2. Unpacking the August 2021 YFYS performance test results**



The primary reason for MySuper products failing the performance test is poor investment performance relative to benchmark (as illustrated by the dark blue bar in *Figure 2*). This measures an RSE licensee's implementation of their investment strategy. All of the MySuper products that failed the performance test would have failed based on their investment performance results alone as they all underperformed the investment performance component of the benchmark by more than 0.50%.

Eleven of the MySuper products that failed the test also charged administration fees higher than the median fee performance test benchmark, but the contribution of the administration fee to the performance test (light blue bar) was less significant than the contribution of investment performance.



## APRA expectation

APRA has no tolerance for members remaining in persistently underperforming products, particularly where the product is closed to new members, which may result in further sustainability challenges which are likely to cause members harm. APRA expects RSE licensees to improve the performance of these products in a timely manner to protect all members, particularly disengaged members.

Where RSE licensees are unable to improve performance or their growth prospect is limited, they must activate their contingency plan to give effect to an orderly transfer of members to another fund.

# Chapter 2 - Investment returns

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## 2.1 Investment return metrics

The Heatmap assesses investment returns across multiple dimensions, including four benchmarks over different time horizons (3, 5 and 7 years) to provide insights into drivers and trends in investment returns:

### Returns relative to benchmark portfolios

- **Strategic asset allocation (SAA) benchmark portfolio** measures how well the RSE licensee has implemented its investment strategy; and
- **Simple Reference Portfolio (SRP)** identifies the value added, including the RSE licensee's strategic asset allocation decisions, against a simple portfolio of low-cost investments with a similar risk profile.

### Returns relative to peers (adjusted for risk)

- **Peer-relative net investment return (NIR)** which identifies the investment return net of investment fees<sup>2</sup>; and
- **Peer-relative net return**, which identifies the investment return of the product net of all fees (i.e. administration fees as well as investment fees) for a \$50,000 representative member.<sup>3</sup>

This chapter focuses on 7-year returns, the longest time horizon in the MySuper Heatmap. As more data becomes available, the Heatmap will include longer time horizons (e.g. 10-year) for assessing investment returns.

To enable comparison between MySuper products, APRA has calculated an average of the relative investment returns of each product against the four benchmarks (heatmap performance).<sup>4</sup> Poor heatmap performance (below 0% or, more significantly, below -0.50%) indicates that an RSE licensee is not delivering good investment returns across a range of measures, which may be due to weaknesses in the RSE licensee's investment process.

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<sup>2</sup> Using the investment returns metric of NIR relative to the NIR / Growth asset allocation trend line.

<sup>3</sup> Using the investment returns metric of Net Return ("NR") relative to the NR / Growth asset allocation trend line.

<sup>4</sup> See Appendix A for details of the calculation of heatmap performance.

## 2.2 Benchmarking investment returns

**Passing the YFYS performance test is not enough to deliver good retirement outcomes.**

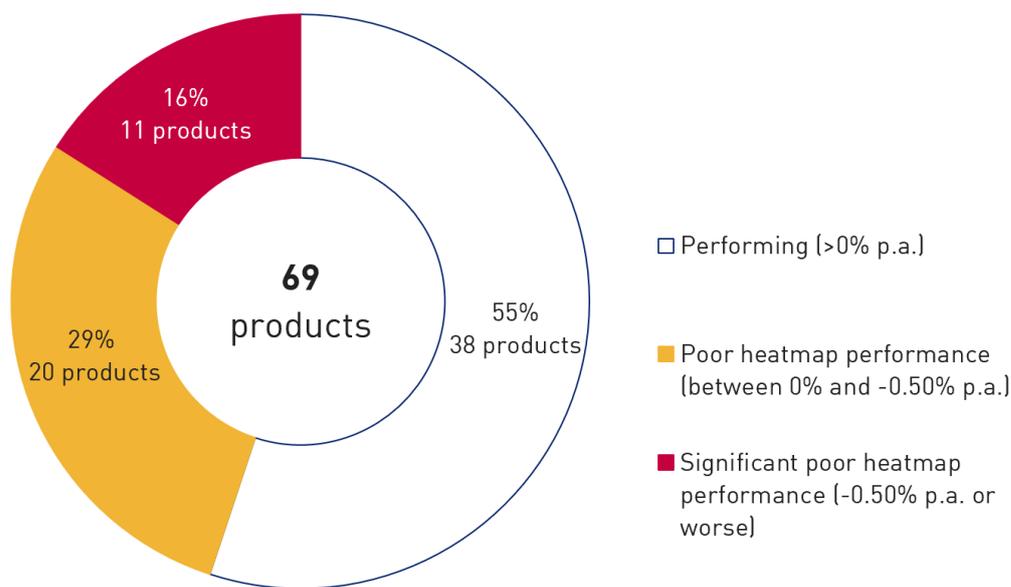
*Figure 3* illustrates that, of the 69 products with seven year return history in the Heatmap:

- 31 of the 69 MySuper products (45%) have heatmap performance below 0% p.a. over the period. This means that, across the four investment return metrics on the Heatmap, these products performed below APRA's heatmap benchmarks and peers on average.
- Of these 31, 11 products (with 1.1 million member accounts and \$59 billion in members' benefits) have heatmap performance that is -0.50% p.a. or worse over seven years. This gives rise to significant investment concerns for these products. Nine of these products were also identified in previous Heatmaps as having poor investment returns and this is the first time that the remaining two products are having their product-level investment returns assessed in the Heatmap<sup>5</sup>

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<sup>5</sup> As the two products have undergone a change in the structure of their investment strategy (changed from single strategy to lifecycle strategy or increased the number of lifestages) APRA has combined the investment returns before the change with the investment return after the change to achieve one continuous return history. This is consistent with the assessment of these two products in the August 2021 YFYS performance test. See [Information Paper - Combining MySuper product performance histories - APRA's approach](#) for further information on the principles and methodology for combining performance history.

**Figure 3. 7 year performance of MySuper products relative to heatmap benchmarks**

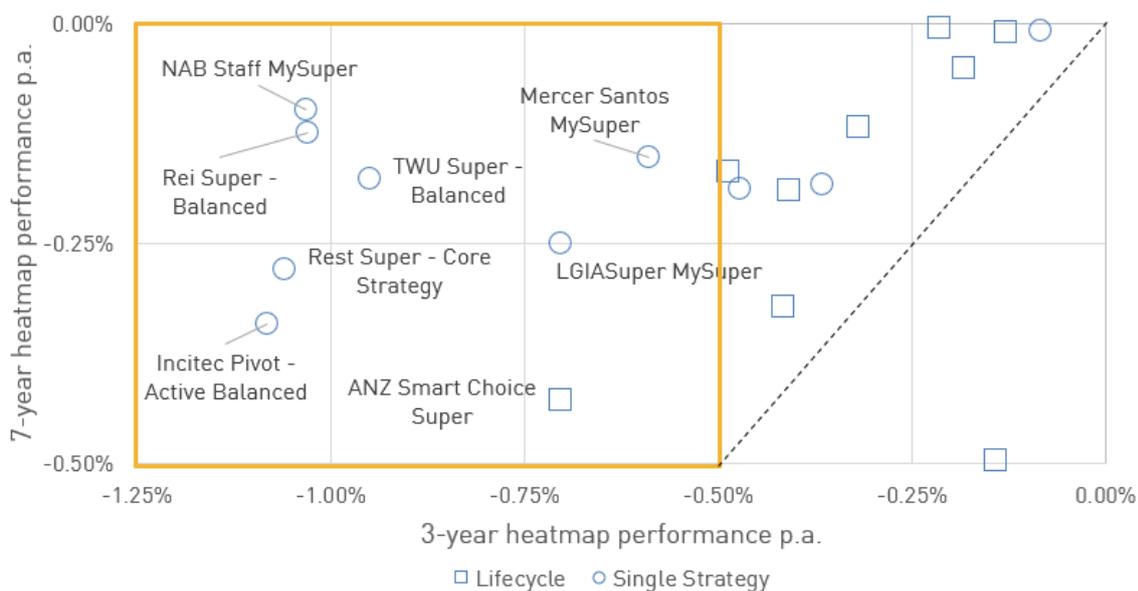


Refer to Appendix B for the list of MySuper products that performed below the heatmap benchmarks.

**8 MySuper products with poor heatmap performance over 7 years have significantly poor 3-year performance.**

APRA considers trends in investment returns by analysing heatmap performance across multiple time horizons, and is concerned with products with deteriorating trends. *Figure 4* below shows the 3-year and 7-year heatmap performance for products with investment concerns over both time horizons. *Figure 4* focuses on those products with 7-year heatmap performance between 0% and -0.50% p.a. only, as these products are below benchmarks but not delivering significantly poor performance over the 7-year horizon.

**Figure 4. Poor performing products with deteriorating investment returns**



Products to the left of the diagonal line in *Figure 4* have worse heatmap performance over the past 3 years compared to the last 7 years – there is only one product that has better shorter-term performance than longer term. In particular, *Figure 4* illustrates eight products (in the yellow box) that not only have deteriorating heatmap performance, but also the 3-year performance has deteriorated to the level of significantly poor performance of more than - 0.50% p.a. below benchmarks.

### APRA expectation

APRA expects an RSE licensee of a product with poor heatmap performance to investigate drivers of any trends in investment returns and take timely action. RSE licensees must demonstrate, through their annual outcome assessment and business performance review, how they can improve performance and promote the financial interests of beneficiaries.

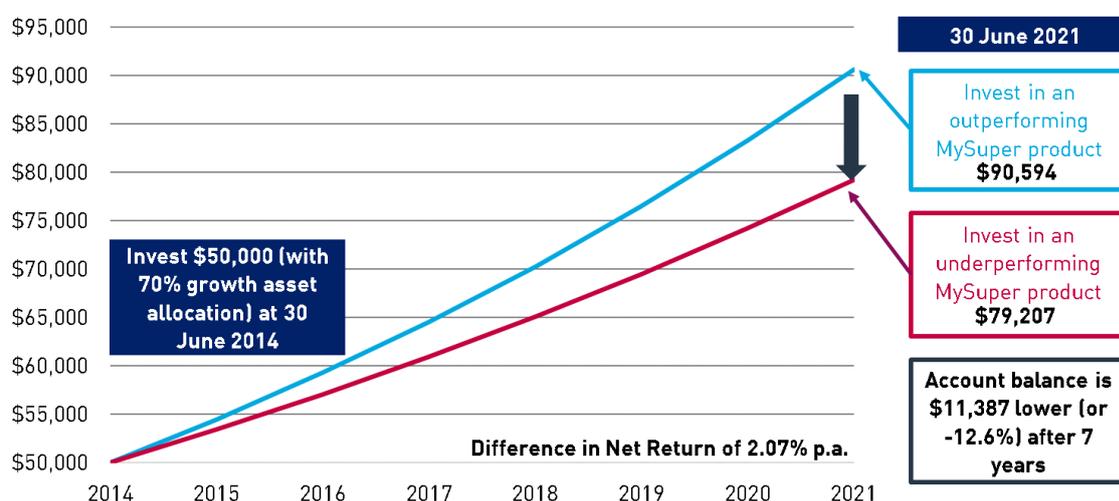
## 2.3 Impact of poor returns on outcomes for members

**The impact of investing in poor performing products amplifies over time.**

APRA has compared the difference between investing in a top performing product and a poor performing product over the last seven years.<sup>6</sup> The impact on a member of being in a poor performing MySuper product is significant. The 2021 Heatmap indicates over a 2% return differential every year between a good performing product and a poor performing product of the same risk profile.

This means that a member who invested \$50,000 in a poor performing product with 70% growth assets in 2014 would have over \$11,000 less in their account (or be at least 12% worse off) after seven years.

**Figure 5. Growth of a \$50,000 member account over seven years**



The longer a member remains in a product that continues to deliver poor investment returns, the worse their investment outcomes will be due to the compounding of investment returns. An RSE licensee that manages poor performing products must consider whether their members may achieve better outcomes from being transferred to another product/provider.

<sup>6</sup> Calculation assumes a one-off contribution of \$50,000 experiences the return of a product with 70% growth asset allocation on the 7-year Net Return trendline (for a \$50,000 representative member) and increased by the average outperformance of the 10 products with the highest outperformance of the trendline or decreased by the average underperformance of the 10 products with the highest underperformance of the trendline. Returns quoted are net of all fees and taxes.

# Chapter 3 - Fees and costs

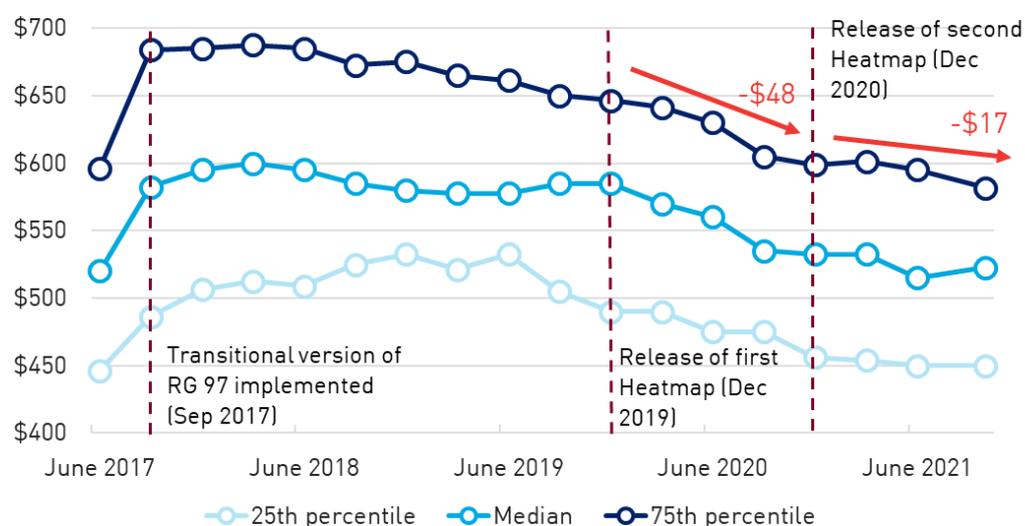
The Heatmap presents the administration fees, and total fees and costs of MySuper products for different account balances (\$10,000, \$25,000, \$50,000, \$100,000 and \$250,000) to allow for different fee structures, which include varying mixes of dollar and asset-based fees and fee caps, across MySuper products.<sup>7</sup> The fee and costs analysis was conducted on a \$50,000 account balance. The insights in this section are broadly consistent when similar analysis is performed on the other account balances.

## 3.1 Total fees and costs

**Fees and costs for MySuper product are declining.**

APRA's of the spread of fees and costs across MySuper products is illustrated in *Figure 7*, which shows the 25<sup>th</sup> percentile, 50<sup>th</sup> percentile and 75<sup>th</sup> percentile for fees and costs of the MySuper products operating at a given point in time.

**Figure 6. Trend of total fees and costs (\$50,000 account balance)**



<sup>7</sup> Fees and costs in the 2021 Heatmap are based on PDS data at 1 October 2021. Total fees and costs include administration fees, investment fees and indirect cost ratio. For products that are disclosing fees and costs under new [RG 97](#) requirements, the Heatmap's 'administration fees' metrics uses 'administration fees and costs', and the Heatmap's 'total fees and costs' metrics uses the 'administration fees and costs', 'investment fees and costs', and 'transaction costs'.

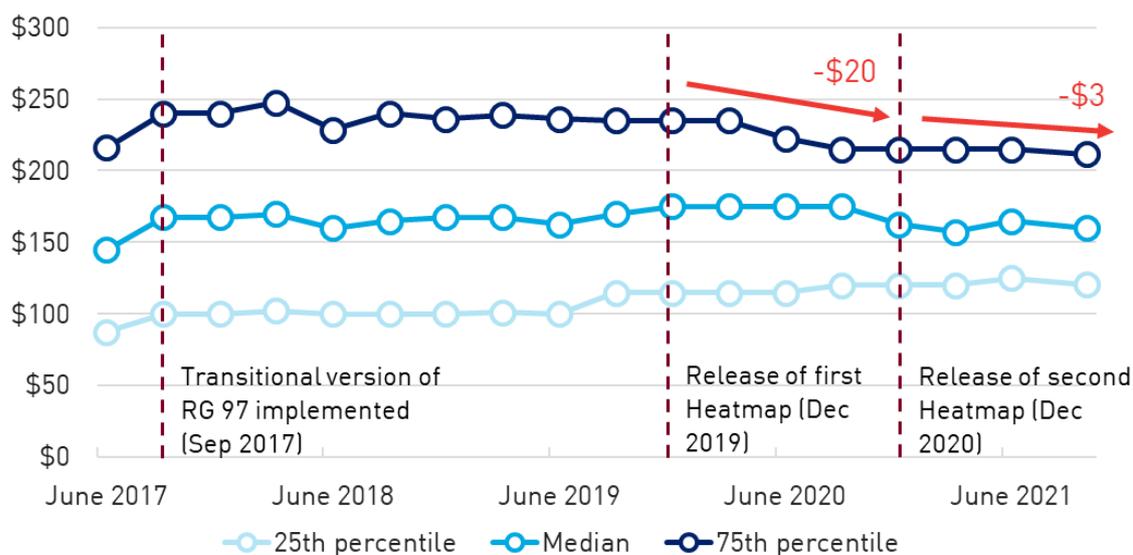
Intense supervisory engagement with the RSE licensees of the most expensive MySuper products has resulted in fees trending down, converging to the median:

- In December 2019, one quarter of MySuper products charged total fees and costs of more than \$646 per annum for a member with a \$50,000 balance. This fell to \$582 in December 2021, a reduction of \$65 or more than 10%.
- The median and 25<sup>th</sup> percentile fees and costs have slightly decreased since December 2020 (median has decreased \$10 to \$523, and the 25<sup>th</sup> percentile has decreased by \$6 to \$450 per annum for a \$50,000 member).

### 3.2 Administration fees

The trend in the highest total fees and costs over time is also observed in the highest administration fees, as illustrated in *Figure 8*. The 75<sup>th</sup> percentile administration fees have reduced by \$23 (from \$235 in December 2019, to \$215 in December 2020 and to \$212 in December 2021) since the first Heatmap.

**Figure 7. Trend of administration fees and costs disclosed (\$50,000 account balance)**



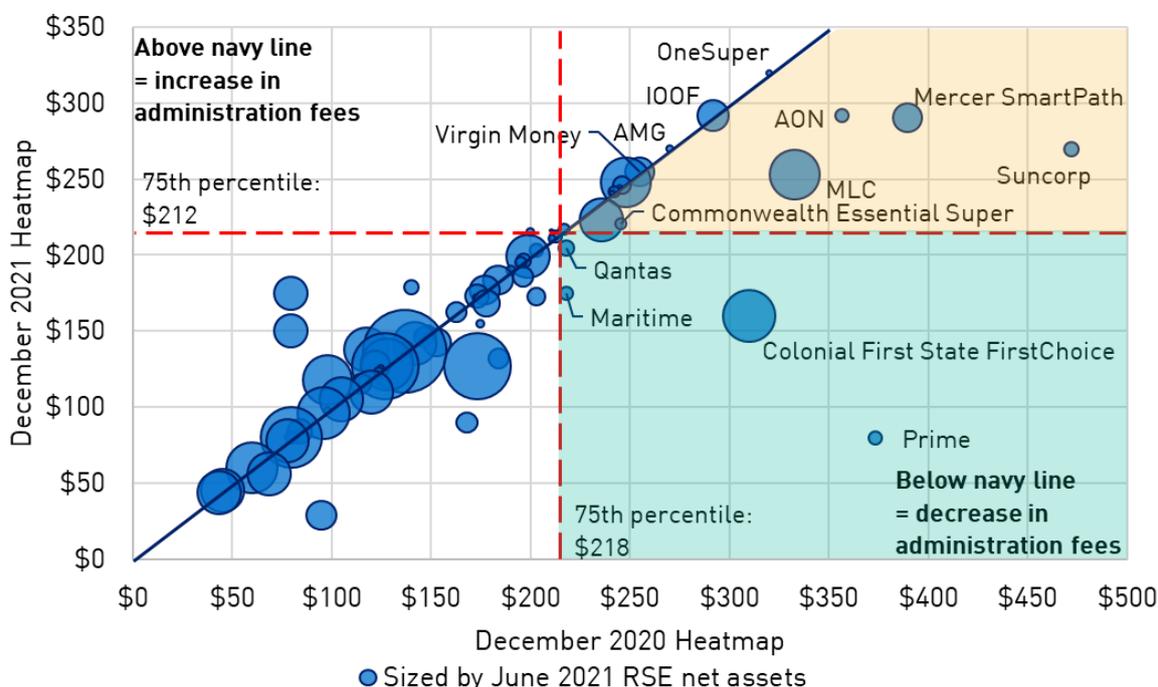
Similar to total fees and costs, the median has only marginally fallen (\$175 in December 2019 to \$160 in December 2021). In contrast, the lowest MySuper administration fees have increased across time, from \$115 to \$121. This suggests that administration fees are converging to the median in MySuper products. While this may be appropriate, given the intent of MySuper products to be simple and cost-effective, further improvement is needed.

## There remains considerable scope for further reductions in fees and costs

It is disappointing that RSE licensees offering the most expensive MySuper products are not doing more to reduce their administration fees over time. APRA expects all RSE licensees, particularly those with the highest administration fees, to evaluate how their administration fee levels are in the best financial interests of members.

*Figure 9* below plots the administration fees of all MySuper products in the 2020 and 2021 Heatmaps.

**Figure 8. 2020 and 2021 MySuper Heatmap administration fees (\$50,000 account balance)**



In December 2020, 19 MySuper products were in the highest quarter of administration fees (above \$218 per annum). Some RSE licensees have taken action to reduce administration fees, which resulted in four products no longer being in the highest quarter of administration fees (indicated in green-shaded quadrant). However, 15 products remain in the highest quarter of administration fees in 2021 (as illustrated in yellow-shaded quadrant).

# Appendix A - Calculating heatmap performance

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Product level heatmap performance has been derived by taking the average of the investment return relative to four heatmap benchmarks (listed in the table below). For example, the following table shows the heatmap performance of a product over seven years:

Net Investment Return relative to the trendline	Net investment return relative to Simple Reference Portfolio	Net investment return relative to Strategic Asset Allocation Benchmark Portfolio	Net Return relative to the trendline
-0.30% per annum	+0.18% per annum	+0.23% per annum	-0.51% per annum

The average heatmap performance over seven years is calculated as  $(-0.30\% + 0.18\% + 0.23\% - 0.51\%) / 4 = -0.10\%$  per annum.

## Appendix B – List of MySuper products with average performance below heatmap benchmarks over 7 years

RSE	Product name	Single strategy / Lifecycle	7-year heatmap performance
Australian Catholic Superannuation and Retirement Fund	LifetimeOne	Lifecycle	Significantly poor (-0.50%p.a. or worse)
AvSuper Fund	AvSuper Growth (MySuper)	Single strategy	Significantly poor (-0.50%p.a. or worse)
Christian Super	My Ethical Super	Single strategy	Significantly poor (-0.50%p.a. or worse)
Colonial First State FirstChoice Superannuation Trust	FirstChoice Employer Super	Lifecycle	Significantly poor (-0.50%p.a. or worse)
Commonwealth Bank Group Super	Accumulate Plus Balanced	Single strategy	Significantly poor (-0.50%p.a. or worse)
Commonwealth Essential Super	Essential Super	Lifecycle	Significantly poor (-0.50%p.a. or worse)
Energy Industries Superannuation Scheme - Pool A	Balanced (MySuper)	Single strategy	Significantly poor (-0.50%p.a. or worse)
Labour Union Co-Operative Retirement Fund	MySuper Balanced	Single strategy	Significantly poor (-0.50%p.a. or worse)
Maritime Super	MySuper investment option	Single strategy	Significantly poor (-0.50%p.a. or worse)
Retirement Wrap	BT Super MySuper	Lifecycle	Significantly poor (-0.50%p.a. or worse)
Retirement Wrap	Westpac Group Plan MySuper	Lifecycle	Significantly poor (-0.50%p.a. or worse)
AMG Super	AMG MySuper	Single strategy	Poor (between 0% and -0.50%p.a.)

RSE	Product name	Single strategy / Lifecycle	7-year heatmap performance
ANZ Australian Staff Superannuation Scheme	ANZ Staff MySuper	Single strategy	Poor (between 0% and -0.50%p.a.)
Guild Retirement Fund	Guild Retirement Fund (MySuper)	Lifecycle	Poor (between 0% and -0.50%p.a.)
Incitec Pivot Employees Superannuation Fund	Active Balanced	Single strategy	Poor (between 0% and -0.50%p.a.)
LGIAsuper	LGIAsuper MySuper	Single strategy	Poor (between 0% and -0.50%p.a.)
Local Government Super	Active Super Lifestage Product	Lifecycle	Poor (between 0% and -0.50%p.a.)
Mercer Super Trust	Mercer Santos MySuper	Single strategy	Poor (between 0% and -0.50%p.a.)
Mercer Super Trust	Mercer SmartPath	Lifecycle	Poor (between 0% and -0.50%p.a.)
Mine Superannuation Fund	Default Lifecycle	Lifecycle	Poor (between 0% and -0.50%p.a.)
MLC Super Fund	MySuper	Lifecycle	Poor (between 0% and -0.50%p.a.)
MLC Super Fund	NAB Staff MySuper	Single strategy	Poor (between 0% and -0.50%p.a.)
NESS Super	NESS MySuper	Single strategy	Poor (between 0% and -0.50%p.a.)
Rei Super	Balanced	Single strategy	Poor (between 0% and -0.50%p.a.)
Retail Employees Superannuation Trust	REST Super	Single strategy	Poor (between 0% and -0.50%p.a.)
Retirement Portfolio Service	ANZ Smart Choice Super	Lifecycle	Poor (between 0% and -0.50%p.a.)
Russell Investments Master Trust	GoalTracker	Lifecycle	Poor (between 0% and -0.50%p.a.)
Super Directions Fund	AMP MySuper No.3	Lifecycle	Poor (between 0% and -0.50%p.a.)
Super Directions Fund	Brookfield Australia MySuper	Single strategy	Poor (between 0% and -0.50%p.a.)

RSE	Product name	Single strategy / Lifecycle	7-year heatmap performance
Telstra Superannuation Scheme	Telstra Super MySuper	Lifecycle	Poor (between 0% and -0.50%p.a.)
TWU Superannuation Fund	Balanced (MySuper)	Single strategy	Poor (between 0% and -0.50%p.a.)

## Appendix C – Asset class benchmarks

The following indices were used when creating the reference and benchmark portfolios:

Asset Class	Index	Fee Assumption	Assumed effective tax rate	Bloomberg Ticker
Australian Equity	S&P/ASX 300	0.05%	0.00%	ASA52
International Equity (hedged)	MSCI All Country World Ex-Australia Equities Index with Special Tax (100% hedged to AUD)	0.11%	14.00%	DE725341
International Equity (unhedged)	MSCI All Country World Ex-Australia Equities Index with Special Tax (unhedged in AUD)	0.09%	14.00%	DN714533
Australian Listed Property	S&P/ASX 300 A-REIT Index	0.12%	14.00%	ASA6PROP
International Listed Property	FTSE EPRA Nareit Developed ex Aus Rental 100% Hedged to AUD Net Tax (Super) Index	0.22%	14.00%	RAHRSAH
Australian Listed Infrastructure	FTSE Developed Core Infrastructure 100% Hedged to AUD Net Tax (Super) Index	0.26%	14.00%	FDCIISAH
International Listed Infrastructure	FTSE Developed Core Infrastructure 100% Hedged to AUD Net Tax (Super) Index	0.26%	14.00%	FDCIISAH
Australian Unlisted Property	MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index – NAV-Weighted Post-Fee Total Return (All Funds)	0.00%	14.00%	N/A
International Unlisted Property	MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index – NAV-Weighted Post-Fee Total Return (All Funds)	0.00%	14.00%	N/A
Australian Unlisted Infrastructure	MSCI Australia Quarterly Private Infrastructure Fund Index (Unfrozen) – NAV-Weighted Post-Fee Total Return (All Funds)	0.00%	14.00%	N/A
International Unlisted Infrastructure	MSCI Australia Quarterly Private Infrastructure Fund Index (Unfrozen) – NAV-Weighted Post-Fee Total Return (All Funds)	0.00%	14.00%	N/A

Asset Class	Index	Fee Assumption	Assumed effective tax rate	Bloomberg Ticker
Australian Fixed Interest	Bloomberg Ausbond Composite 0+ Index	0.10%	15.00%	BACM0
International Fixed Interest	Bloomberg Global Aggregate Index (hedged in AUD)	0.10%	15.00%	LEGATRAH
Australian Cash	Bloomberg Ausbond Bank Bill Index	0.04%	15.00%	BAUBIL
International Cash	Bloomberg Ausbond Bank Bill Index	0.04%	15.00%	BAUBIL
Other (assets categorised as Other / Commodities)	25% International Equity (hedged), 25% International Equity (unhedged), 50% International Fixed Interest	As per the underlying asset classes		

The benchmarks chosen are considered to be representative of the investable market, for an Australian superannuation investor. Total return indices (that is, returns inclusive of dividends as well as capital gains) have been used.

#### Index Provider Acknowledgements

**Source:** “Bloomberg®”, Bloomberg Ausbond Bank Bill Index, Bloomberg Ausbond Composite 0+ Index and Bloomberg Global Aggregate Index (hedged in AUD) are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited (“BISL”), the administrator of the index (collectively, “Bloomberg”) and have been licensed for use for certain purposes by APRA. Bloomberg is not affiliated with APRA and Bloomberg does not approve, endorse, review, or recommend APRA’s heatmaps. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to APRA’s heatmaps.

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