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MySuper – The Argument For Competition In Investment Solutions

Executive Summary

- A single MySuper pricing point entrenches vertical integration of superannuation fund providers.
- Vertical integration limits competition and innovation in investment solutions, which in turn are required to drive superior investment outcomes for members.
- Furthermore, significant impediments exist to transitioning from one integrated superannuation fund provider to another. This has the potential to lead to extended periods of sub-standard investment outcomes.
- Members interests, in the form of net investment returns, will be better served by preserving competition in default investment solutions.
- Continuing with multiple pricing points encourages competition, contestability, innovation and design-for-purpose, without necessarily incurring higher costs.

Introduction

The position for a single pricing point for all members of the MySuper product (under a single RSE) across all participating employers is stated to be inconsistent with the objectives of the MySuper reforms – to provide a largely universal superannuation offering that represents the best deal for all default members. It is stated that a single pricing point will promote competition through ease of comparability and the need to set a competitive price to attract members.

A corollary of a single pricing point is a single investment solution. We believe that this reduces competition in providing optimal investment solutions, potentially harming the net investment return outcomes for members.

The Current Environment – Multiple Investment Solutions

In addition to the ability to select a default fund and negotiate a pricing point in the fund, employer sponsors also have the ability to select an investment solution provider. In several significant cases¹, the investment solution provider for the default fund has not been the associated investment solution provider of the default fund itself.

Furthermore, current default fund providers are increasingly requested to provide for the possibility of an investment solution provider being changed at a later date should the investment outcomes from the initial investment solution provider not meet expectations.

These decisions are made in the interests of the net investment return outcomes for default members, seeking the best prospective investment solution provider. The decision is made in a thorough, informed manner in the interests of the default member group.

JANA Investment Advisers

JANA is a leading independent investment adviser to superannuation funds. Through our implemented consulting capabilities JANA is the investment solution provider to a number of employer sub-plans in multi-employer regulated superannuation funds. JANA does not operate a regulated superannuation fund. Our investment solutions are chosen by sponsoring employers on their merits as offering the best prospective net investment returns to members, and included as the nominated investment solution in third party superannuation fund.

In many cases, we are aware that sponsoring employers have chosen JANA **because we are independent from the operator** of the multi-employer regulated superannuation fund. The concern for these employers is that without this independence, there could be a lack of transparency, lack of flexibility and potential for increased conflicts of interests.

We are acutely aware that our business is dependent on delivering superior investment outcomes to the members of funds for which we provide the investment solution. This focus, plus our independence, serves the ends of the member in an unambiguous way.

It is insufficient for JANA to provide market-average outcomes, as this will not provide the level of differentiation to warrant inclusion of an independent investment solution within a multi-employer fund.

One MySuper Pricing Point

1. A single MySuper pricing point **lessens competition** in the provision of default investment solutions, and restricts idea generation.
2. A single MySuper pricing point will lead to even **greater levels of vertical integration** in multi-employer fund providers. The associated investment solution provider will focus on delivering market-average outcomes to limit business risk. The pursuit of market-average outcomes limits innovation and idea generation. Both are important in delivering superior investment outcomes.

¹ As an example, JANA Investment Advisers is the investment solution provider for the Wesfarmers scheme within the Mercer Super Trust.

3. Generally, the extent of a transition from one superannuation fund provider to another is very complex, involving transition of:
 - member recording keeping,
 - member services (web, written, telephone, etc),
 - unique legal and tax issues, and
 - employer servicing (e.g. payroll interfaces),

in addition to the investment solution provider. This inhibits transition of superannuation fund provider simply to address shortcomings in investment solution. The **impediments to transitioning** to a new provider may even result in extended periods of sub-standard investment outcomes.

Employee Populations

Our work in providing investment solutions to multi-employer funds indicates that employee populations of distinct employers can be profiled with regard to their general investment objectives. This permits creation of a default investment solution designed appropriately for that population. The move to a single MySuper pricing point will remove this possibility, and create longer term issues for Trustees around sub-optimal outcomes.

Impact of retaining multiple pricing points

The key benefits of retaining multiple pricing points are:

- Greater competition
- Greater flexibility
- Reduced potential for conflicts of interest.

The question is whether cost savings from removing multiple pricing points might offset these benefits. The impact on investment costs is immaterial given that scale benefits are not impacted, on account of the platform approach widely adopted. Any benefits from the administration savings are, as stated in the Stronger Super Issues Paper, largely dealt with via the implementation of the SuperStream reforms.

Finally, there is the question of likely transition costs. The affected number of members will be in the hundreds of thousands (if not in the millions), with transfer arrangements incurring costs with transfer of real assets from one investment platform to another. Our experience is that the cost of transition can be as great as 1%, when all costs including market impact costs are estimated.

Ian Patrick
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