DISCLOSURE OF SUPERANNUATION FUND HOLDINGS: what would be best?¹

ALEX ERSKINE, Chief Economist, Australian Securities and Investments Commission (ASIC) and CLARE MARLIN, Senior Researcher, Australian Securities and Investments Commission (ASIC)

The Stronger Super and other reforms present an opportunity to improve the disclosure of fund holdings, which is becoming more pressing as savings for retirement accumulated in defined contribution superannuation funds grow and the number of members approaching retirement age increases. In an increasingly global industry, Australian practice should also reflect the practices of its international peers. This paper explores the potential benefits and challenges of disclosing portfolio holdings to superannuation investors. An earlier version of this paper was presented to the 2012 Australian Centre for Financial Studies’ Melbourne Money and Finance Conference.

For most Australians, superannuation represents their biggest investment outside the home.

In recent years, concerns have been raised about the limited disclosure of the underlying investments of superannuation funds. Superannuation funds, like other investors, have to disclose significant shareholdings in companies (i.e. 5 per cent or more of a company’s shares on issue). Most comparable international jurisdictions require full and complete disclosure of portfolio holdings at least once a year. While Australia is currently an exception, the government’s Stronger Super reforms propose that this gap be closed. The superannuation and managed funds industry, particularly the Association of Superannuation Funds of Australia (ASFA) and the Financial Services Council (FSC) are developing their own industry guidance on this issue. ASIC has strongly encouraged positive engagement by industry on this issue.

Currently there is no legal requirement for superannuation funds and unlisted managed investment schemes to fully disclose portfolio holdings to investors, although this information can be made available on request. While funds may disclose the nature of their investments by asset class or by a strategic or tactical asset allocation range, investors may be unable to access details of the specific investments in the range of investment options offered.

In the view of the authors, enhanced disclosure of portfolio holdings carries both opportunities and challenges. Some of these, together with the rationale for full disclosure, are explored in this paper.

Superannuation’s place in Australian households

All members of superannuation funds are members of households. Households hold more of their financial assets in the form of equity in superannuation funds than in any other form. Around 80 per cent of the equity in superannuation is in defined contribution funds, with the remainder in defined benefit funds.

While households have been increasing their holdings of currency and deposits over the past two decades, their assets in superannuation funds have risen by more. Meanwhile, since 2007, households have been running down their holdings of shares and other equity — market-linked financial assets held outside superannuation.

The persistent differential growth rates for superannuation assets and currency and deposits have occurred despite a number of years of volatile returns from superannuation fund investment and increased identification of deposits (or debt reduction) as the wisest place for savings (see Figure 1). The continuing rapid growth of household holdings of equity in superannuation funds results from member contributions, most of which are mandated, as well
as from earnings and changes in asset prices. With superannuation guarantee contributions set to rise progressively from the current level of 9 per cent of wages to 12 per cent, the share of household financial assets in superannuation funds seems likely to rise further over time.

It is an unfortunate conjunction that even as households increasingly seek certainty and express strong risk aversion they are becoming more exposed to, and ultimately more dependent for their retirement standard of living on, a form of holding savings that currently can involve minimal disclosure and can embody substantial market and other risks.

**FIGURE 1: 'Wisest place for savings', Westpac-Melbourne Institute Survey of Consumer Sentiment**

![Graph showing trends in consumer sentiment from June 1998 to June 2012.]

**FIGURE 2: Superannuation sentiment (2008 to 2011)**

![Graph showing monthly average All Ords sentiment and Superannuation Sentiment Index from June 2008 to Sept 2011.]

*Sources: Melbourne Institute of Applied Economic and Social Research, Westpac-Melbourne Institute Survey of Consumer Sentiment; various to June 2012.*

*Sources: Mercer 2011, Mercer Superannuation Sentiment Index: Wave 7.*
Superannuation member sentiment and engagement

Although superannuation sentiment plummeted following the global financial crisis (GFC), in late 2011 Mercer reported a modest rise in its measure of superannuation sentiment (see Figure 2).²

Interestingly, this rise in sentiment was accompanied by:

> a fall in the level of worry about share market volatility, even though the survey was carried out during a period of market volatility (56 per cent were ‘worried’ in September 2011 compared with 61 per cent in June 2010); and

> somewhat more subdued expectations about future balances (in September 2011, 48 per cent anticipated that their next superannuation balance would grow compared with 72 per cent in June 2008).

These findings may be a product of fatigue, complacency, market developments, communication from superannuation funds, or a combination of factors.

What is clear is that many working Australians have only a superficial level of engagement with their superannuation and some are completely disengaged. For example, recent surveys of Australians with superannuation have reported that:

> 45 per cent answered ‘don’t know’ when asked to select the most accurate description of a superannuation ‘balanced’ option from a multiple choice list;³

> 41 per cent were unaware that superannuation is taxed at a lower rate than other investments (i.e. 11 per cent thought it was taxed at the same rate; 3 per cent thought the rate was higher; and 27 per cent were unsure);⁴

> 29 per cent were unaware that members had the ability to change investment choice within superannuation;⁵

> 20 per cent of those who said they received superannuation statements indicated they do not read them (a further 11 per cent did not recall receiving them);⁶

> 19 per cent answered ‘don’t know’ when asked to select the best indication of a superannuation fund’s performance from a list of choices;⁷ and

> 16 per cent were unable to list any factors that someone would need to take into account if they were trying to calculate whether their current arrangements were enough for retirement.⁸

However, most people are aware of the most basic rules of superannuation and a significant minority are actively engaged with their superannuation.

For example:

> 98 per cent understood that employers are required by law to make superannuation payments on behalf of employees;⁹

> 92 per cent understood employees can make superannuation payments additional to any payments made by their employer;¹⁰

> 35 per cent said they had made additional contributions/payments into superannuation (either directly or via salary sacrifice);¹¹ and

> 22 per cent said that, when they received their last superannuation statement, they opened it and read it thoroughly.¹²

Those with self-managed superannuation funds (SMSFs) appear to be more engaged than other superannuation members. Indeed, Roy Morgan Research (2012) data suggests that those with SMSFs tend to be more engaged with financial matters compared with those without SMSFs. In 2012, people with SMSFs were:

> less likely to be unable to estimate their current superannuation balance;

> more likely to be making voluntary contributions to superannuation;

> more likely to have recently switched funds in the previous 12 months;

> more likely to have met with an adviser or used one to obtain their superannuation;

> more likely to have been asked about finance and investments by family or friends;

> more likely to have visited business and finance websites;

> more likely to have bought or sold shares over the internet in the last 12 months; and

> more likely to ‘always read the business section of the newspaper’.¹³

There is mounting research describing barriers to engaging people in their retirement savings and investment decisions (ASIC 2011). These barriers include behavioural biases, cost, time pressures, complexity, life-stage factors, market conditions and, in Australia, the compulsory nature of the superannuation system. Nevertheless, industry and government are working together to promote the benefits of superannuation, and better communicate with superannuation members. While a significant number of Australians with superannuation feel there is nothing that could encourage them to be more interested in their superannuation, many believe they will become more engaged as they get closer to retirement and/or receive improved services (see Table 1). A small number of these would like to see more information or advice on investment performance and/or risks specifically.
Recent research commissioned by the Australian Taxation Office (ATO) (2012), confirms that interest and engagement grows as people age: 57 per cent of individuals indicated they were interested in their super, with the proportion of individuals reporting to be ‘very interested’ in their super increasing within each age group (e.g. 18–24 year olds: 16 per cent and 55–64 year olds: 47 per cent). Similarly, younger age groups were significantly more likely to report that their super ‘does not concern them’ (e.g. 18–24 year olds: 38 per cent and 40–54 year olds: 27 per cent).

Disclosure of fund holdings: how Australia compares internationally

Australia ranks very poorly compared with many other countries in terms of its disclosure of the holdings of mutual funds. Morningstar is a leading provider of financial information about managed funds. Periodically, it publishes a survey of investor experiences of mutual funds in 22 OECD countries (most recently in 2009 and 2011). The purpose of this survey is to obtain a cross-country comparison of the investment climate for mutual funds.

In the disclosure section of the 2011 Morningstar assessment, Australia was given a ‘D’ grading and ranked equal lowest out of the 22 countries compared (see Figure 3). The disclosure section examined whether investors were given sufficient information in the prospectus, shareholder reports and in other readily available sources of fund data.

Decomposing Australia’s poor disclosure grade highlights the Morningstar report’s implicit recommendations for improvement to the regulatory regime from an investor perspective. One area in which Australia scored poorly was in the mandated transparency of portfolio holdings. Transparency ought to assist investors to understand what their fund invests in and where any investment risks may lie. The vast majority of the countries in the Morningstar study required full and complete disclosure of portfolio holdings, either on a quarterly or semi-annual basis. A minority of funds even published monthly performance. Of the 22 countries, only Australia and New Zealand did not require any disclosure of portfolio holdings by funds.

Australia also scored poorly in terms of its disclosure of the name, tenure and compensation of portfolio managers. Furthermore most countries surveyed mandate that a discussion of the financial performance be included within fund reports. Australia does not, for instance, require any discussion of fund performance against its objectives. The Morningstar survey also found that discussions by Australian portfolio managers in the financial reports were generic and failed to connect fund performance with portfolio actions.

Australia ranked well in some other aspects. For instance, Australia along with Canada, Italy, Sweden, the United Kingdom and the United States scored well in terms of disclosure of the amount of fees and expenses paid by an investor; primarily because some disclosure documents had a numerical illustration of the total expenses an investor could expect to pay on an investment.

TABLE 1: What would encourage you to be more interested and involved in your superannuation?

<table>
<thead>
<tr>
<th>Answer</th>
<th>Per cent who gave this answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nothing</td>
<td>20%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>13%</td>
</tr>
<tr>
<td>A better understanding/user friendly/options/control available/layman’s terms/simplified paper/statements</td>
<td>11%</td>
</tr>
<tr>
<td>I’m already interested/involved/as much as I want/need to be/happy with how things are</td>
<td>8%</td>
</tr>
<tr>
<td>More benefit/improved returns/performance of superfund investments/able to see it grow</td>
<td>8%</td>
</tr>
<tr>
<td>My age/when I’m older/approaching retirement</td>
<td>6%</td>
</tr>
<tr>
<td>Larger balance in my superannuation/paid more super/earnings/working more</td>
<td>5%</td>
</tr>
<tr>
<td>More information/advice/investment performance news/comparisons/risks involved</td>
<td>4%</td>
</tr>
<tr>
<td>Easier access/variety of channels/easy to contact/access information/online</td>
<td>3%</td>
</tr>
<tr>
<td>More time</td>
<td>3%</td>
</tr>
<tr>
<td>Being employed/change of employment/full time work</td>
<td>3%</td>
</tr>
<tr>
<td>Able to make/afford extra contributions/salary sacrificing</td>
<td>3%</td>
</tr>
<tr>
<td>Changing legislation/more incentive/tax benefits/government contributions/remove caps</td>
<td>3%</td>
</tr>
<tr>
<td>Improved/regular communication/newsletter/monthly email/fund manager</td>
<td>3%</td>
</tr>
</tbody>
</table>

Sample: 1,279. Table excludes answers that were at or under 2%.

Source: AIST and Russell Investments 2011, Tuning into super (a superannuation engagement index).
Disclosure of fund holdings: opportunities and challenges

The Stronger Super and other reforms present an opportunity to improve the disclosure of fund holdings, which is becoming more pressing as savings for retirement accumulated in defined contribution superannuation funds grow and the number of members approaching retirement age increases.

Benefits/opportunities

Greater fund transparency

Enhanced disclosure regarding portfolio holdings may play an important role in an engaged investor’s decision to invest, remain invested or exit the product. It also gives consumers the information required, and the encouragement based on that information, to take more responsibility for ensuring that investments in defined contribution retirement incomes schemes are invested and managed appropriately.

Potentially, there may be some change in investment management practices in the longer term if full disclosure of portfolio holdings leads to improved attribution analysis by research houses. At the margin, enhanced disclosure may prompt an increased desire to report portfolio holdings that increase the probability of positive and negative returns. In the shorter-term, disclosure and a requirement to discuss performance against investment objectives may result in some fund managers restating more achievable long-run investment objectives (e.g. ‘CPI + real economic growth’, rather than ‘CPI + 5 per cent’).

Greater access to information for the investor

In order for investors to be confident and informed, they require access to salient information about their investment, including underlying portfolio holding information. Specifically:

- such information is a potentially important resource for investors in balancing the likely risks and rewards of various investment options;
- information relating to major investments may also facilitate an assessment of the level of liquidity of the investments;
- information may also facilitate an assessment of the level of diversification of the investor’s super and non-super investments;
- investors would be better able to identify the key components of the assets contributing to the fund’s return and it could enable identification if there are any assets that appear inappropriate or problematic; and
- due to the compulsory nature of super, and with more personal dollars at stake, consumers may become more engaged and proactive in relation to their investments.

The benefit may be the promotion of diversification and a great sense of confidence in superannuation among the engaged members.

Adopting global best practice

Although there is no uniform global approach to disclosure of portfolio holdings, most countries require full and complete disclosure. In an increasingly global industry, Australian practice should reflect the practices of its international peers.

Superannuation as a key retirement income pillar

It is not solely for the members themselves that transparency is important. As a key pillar of the country’s retirement income system, superannuation has specific tax advantages over other forms of investment and, of course, it is compulsory. The actions of superannuation funds are important issues for all tax payers. As such, there are obligations to the community for the funds to be accountable for their investments.

Disadvantages/challenges

Inevitably, depending on how disclosures are made, some funds see disadvantages to this. Opponents of increased disclosure have cited costs and potential abuses of the information disclosed as reasons not to proceed.
### Increased costs
Enhanced disclosure is likely to increase the operational costs of issuers (and will ultimately be passed on to investors via an increase in the management expense ratio (MER)). However, it is likely that issuers already have access to information on daily portfolio holdings of funds and so the increased costs should be reasonably small. It should primarily be a question of making this information available in the prescribed manner.

There are pragmatic approaches to providing the disclosures that can ensure they are not overly burdensome. For example, it should not be necessary to give members a copy of the disclosures. Rather, disclosures can be made available on a website or via other mechanisms that a member can access.

### Potential for misleading disclosure
When it is published, information will necessarily be out of date, and therefore potentially misleading, because the actual portfolio holdings on the date of disclosure will be different from holdings as disclosed. Adequate (and more frequent) explanation will need to be provided to avoid misleading investors, for example, after sharp market moves.

### Unengaged members
For the unengaged superannuation saver, creation of a supply of additional information that is ‘pushed’ to recipients would be intrusive and counterproductive. This concern needs to be balanced against the benefits for members who are engaged with their superannuation, together with the potential benefits of engaging some of these unengaged members. Arguably, by merely making the information available to members this concern can be avoided.

### Looking forward
A recent ASFA and Ernst & Young study of industry preparedness for Stronger Super identified a comparatively low level of preparedness in the area of members and employers. Clearly, there is considerable work in train and ahead.

ASIC’s priorities are to focus on three key outcomes: confident and informed investors and financial consumers; fair and efficient financial markets; and efficient registration and licensing. The rising importance of superannuation savings within Australia and within household balance sheets is a key driver of our priorities and outcomes.

Contributions to, and growth of assets in, superannuation funds and their increasing importance to members as they save for their retirements will continue to ensure interest in the adequacy of fund disclosures. Notwithstanding increasing complexity, both industry and the regulators need to be proactive in anticipating and responding to members’ needs, both the engaged and the unengaged. Some members already seek full disclosure and are disappointed. These members and some others would benefit from full disclosure, and only a small minority will be disadvantaged if full disclosure is implemented at a reasonable cost and avoids overburdening the currently unengaged members of superannuation funds. ■
Notes
1. The paper presents the personal view of the authors. While they have benefited from contributions from colleagues, the views are not necessarily shared by the Australian Securities and Investments Commission.
2. The September 2011 index was based on a national survey of 1,001 full-time working Australians aged 25 to 65 conducted by Indeana in September and October 2011.
3. Australian Institute of Superannuation Trustees (AIST) and Essential Research (2012). The survey was conducted by Your Source online in March 2012 and had 1,038 adult Australian respondents. Only those with superannuation were asked this question (i.e. 782 respondents).
4. ANZ and The Social Research Centre (2011). The 2011 survey involved 3,502 phone interviews with adult Australians conducted during July and August 2011. Where appropriate, only those with superannuation were asked certain questions.
5. AIST and Russell Investments (2011). Based on a national survey of 1,320 Australians who had at least one superannuation fund and were not retired. The survey was conducted by newfocus both online (n=1,020) and by phone (n=300).
7. Ibid.
8. Ibid.
9. Ibid.
10. Ibid.
11. Ibid.
12. Australian Institute of Superannuation Trustees (AIST) and Essential Research (2012).
13. Based on interviews and surveys conducted with more than 50,000 Australians aged 14 and over between April 2011 and March 2012.
14. Based on an online survey of 1,513 individuals between 26 October and 1 November 2011.
15. Generally referred to as ‘managed funds’ in Australia.
16. Morningstar’s global analysts provided examples of typical fund literature for funds domiciled in each country. The report’s authors then compared the information and format using translated documents to evaluate the effectiveness of the simplified prospectus. The prospectuses were reviewed for clarity of language, length, presentation of costs, information on trading costs, holdings information, manager information, performance data and general presentation.
17. In the 2009 study, this section was titled, ‘Transparency in prospectus and shareholder reports’.
18. ASFA and Ernst & Young (2012).

References
ABS — see Australian Bureau of Statistics.
AIST — see Australian Institute of Superannuation Trustees.
ANZ — see Australia and New Zealand Banking Group Limited.
ASFA — see Association of Superannuation Funds of Australia.
ASIC — see Australian Securities and Investments Commission.
ATO — see Australian Taxation Office.
Association of Superannuation Funds of Australia and Ernst & Young 2012, Stronger super preparedness: preliminary findings of study II, Association of Superannuation Funds of Australia and Ernst & Young.
Australia and New Zealand Banking Group Limited and The Social Research Centre 2011, ANZ survey of adult financial literacy in Australia, ANZ Banking Group, Melbourne.
Australian Institute of Superannuation Trustees and Essential Research 2012, Superannuation poll, Essential Research, Melbourne.
Australian Institute of Superannuation Trustees 2012, Australians still confused about super; poll, Australian Institute of Superannuation Trustees, Melbourne.
Australian Institute of Superannuation Trustees and Russell Investments 2011, Tuning into super, Australian Institute of Superannuation Trustees, Melbourne and Russell Investments, Sydney.
Australian Taxation Office and Colmar Brunton Social Research 2012, Super reforms research: individuals quantitative findings; Australian Taxation Office, Canberra.
Mercer 2011, Mercer Superannuation Sentiment Index: Wave 7, Mercer (Australia) Pty Ltd.