ATCHISON
CONSULTANTS

SUPERANNUATION MARKET PLACE

Quarterly Review to 31 March 2020

July 2020

Level 3, 155 Queen Street, Melbourne Vic 3000
enquiries@atchison.com.au www.atchison.com.au
P: +61 (0) 3 9642 3835
F: +61 (0) 3 9642 8886

Special Feature: COVID – 19 Early Access to Superannuation

Due to the COVID – 19 pandemic, the Australian government earlier this year announced that Australians experiencing financial stress due to the coronavirus outbreak may be eligible to early access of their superannuation. The temporary announcement will allow superannuation account members to access up to $10,000 of their money this financial year, and a further $10,000 after 1 July 2020 (until 30 June 2021). These funds would not be taxed after they are withdrawn.

The ATO states that to apply for early release, "you must satisfy any one or more" of the following requirements:

- Australians experiencing financial stress due to the coronavirus outbreak may soon be able to access a portion of their super
- Be unemployed
- Be eligible to receive a job seeker payment, youth allowance for jobseekers, parenting payment (which includes the single and partnered payments), special benefit or farm household allowance
- On or after 1 January 2020, either:
- you were made redundant
- your working hours were reduced by 20% or more
- if you are a sole trader, your business was suspended or there was a reduction in your turnover of 20% or more

Since the announcement, data compiled by the ATO confirmed there has been approximately 2.12 million Australia's who have accessed their super early, with the average withdrawal payment totalling $7,473. In total, APRA figures confirm roughly $14.8 billion has been withdrawal from the retirement scheme.

Recent data compiled by advisory firms Alpha Beta and Illion showed where the recent dip into super money had been spent;

- 64% on alcohol, take away food and clothing
- 11% on gambling
- 14% on personal debt

On the other end of the spectrum are the super funds, and the impact the withdrawals have taken on day to day operations and investment strategy liquidity. Total funds under management, liquidity requirements as well as the turnaround around time imposed by APRA, with withdrawals expected to be processed within a five-day time frame, all representing a significant impact to each super fund at some level.

The table below shows the top super fund outflows due to the early release, retail and industry funds ranked by funds under management.

Top Superannuation Fund Outflows	FUM (%)	Payments ($m)
Retail Funds		
Commonwealth Essential	8.0	302.0
Grosvenor Pirie Series 2	7.2	7.9
Crescent Wealth	4.6	11.5
Tidswell	4.0	25.0
Future	2.6	12.0
Industry Funds		
Intrust	3.9	112.0
Meat Industry Trust	3.0	82.0
Hostplus	2.5	1,178.0
Meat Industry Trust	2.4	22.0
LUCRF	1.9	135.0

Source: Financial Review

The table shows that for some super funds, the outflows can represent a material impact to funds under management, with Commonwealth Essential outflows representing 8.0% of funds under managements, with outflows expected to increase over the next 12 months.

A few of the largest super funds also make up a large sector of the withdrawals, with Australian Super, Hostplus, Suncorp, Rest, Cbus, AMP Limited, HESTA, MLC, CFS and ANZ making up roughly 60% of all withdrawals this far, with total outflows of roughly $9.8billion.

Super funds on average have been able to meet the processing requirements, with the average time take to process the one-off payments currently coming in at 3.3 business days, below the required 5 days, with 95% of the withdrawals being processed within the five business days.

With more than one year to go before the temporary measures are finished, it will be wait and see to determine the total amount of funds that are withdrawn from the $2.7 trillion dollar superannuation industry, and whether the early release withdrawals will continue to have a material impact on super funds.

Superannuation Market Place

Total Australian superannuation assets decreased by 7.5% over the quarter to March 2020 to approximately $2.7 trillion (refer to Table 2). The decrease can be attributed to the COVID – 19 pandemic over the quarter, which resulted in one of the worst sell offs to global markets on record. The sharp fall in prices (Table 1) decimated both the global and domestic economy's.

Table 1: Quarterly Equity Performance - 31 March 2020

Asset Class	Index	Quarterly Return (%)
Australian Equities	S&P/ASX 200 TR	-23.1
International Equities	MSCI World Ex Australia TR (AUD)	-8.9
International Equities (Hedged)	MSCI World Ex Australia (in local currency terms)	-21.1
Australian Listed Property	S&P/ASX 200 A-REIT TR (AUD)	-34.4
International Listed Property	FTSE EPRA/NAREIT Developed TR (AUD)	-21.9

Source: S&P, MSCI, FTSE, FE

The composition, in terms of fund types, is as follows:

Table 2: Assets by Fund Type – 31 March 2020

Type	Assets ($ Billion)	Assets (%)
APRA-Regulated		
Corporate	55.6	2.0%
Industry	717.0	26.3%
Public Sector	523.6	19.2%
Retail	558.3	20.4%
Other	2.1	0.1%
Total APRA-Regulated	1856.6	68.0%
Self-Managed Super Funds	675.6	24.7%
Other	199.1	7.3%
Total	**2731.3**	**100.0%**

Source: APRA, Atchison Consultants

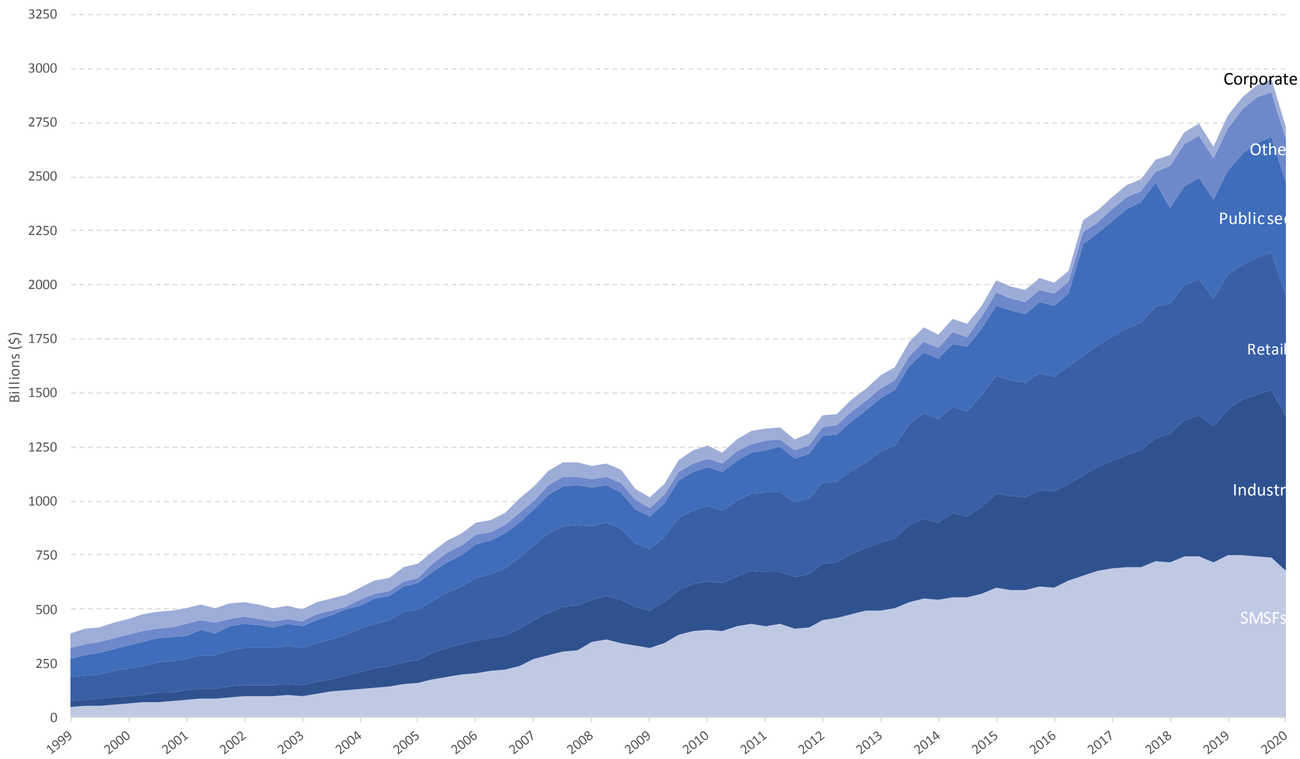
Australian superannuation total assets decreased 0.3% over the one year period to March 2020, with the significant falls over the March 2020 quarter heavily weighing over the period. According to APRA, contributions into superannuation increased during the COVID – 19 pandemic, despite the government's announcement allowing Australians experiencing financial distress early access to their superannuation, with total contributions increasing 6.9% compared to March 2019.

Superannuation Industry Sectors

At March 2020, industry funds held the largest proportion of superannuation assets, accounting for 26.3% of total assets, self-managed funds closely followed with 24.7% of total superannuation assets. Retail funds held the third largest portion, representing 20.4%.

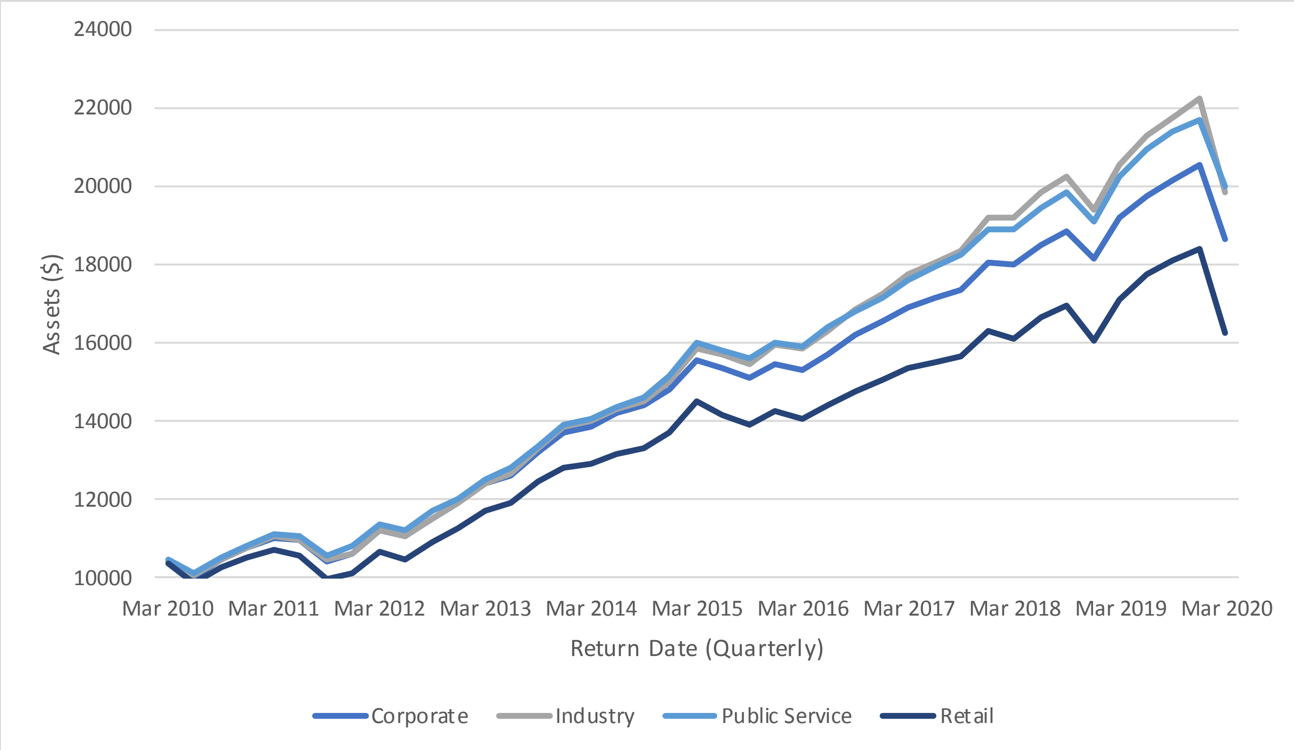
Superannuation assets weren't able to continue the recent upward trend, with all sector total assets declining over the March 2020 quarter, as evident in the below Figure. None of the sectors were able to buck the COVID – 19 sell off with each sectors total assets declining. Figure 1 provides a breakdown of the superannuation industry over time.

Figure 1: Superannuation Assets by Segment – 31 March 2020



Source: APRA, Atchison Consultants

Figure 2: Growth of $10,000 over 10 years based on quarterly rate of returns – 31 March 2020



Source: APRA, Atchison Consultants

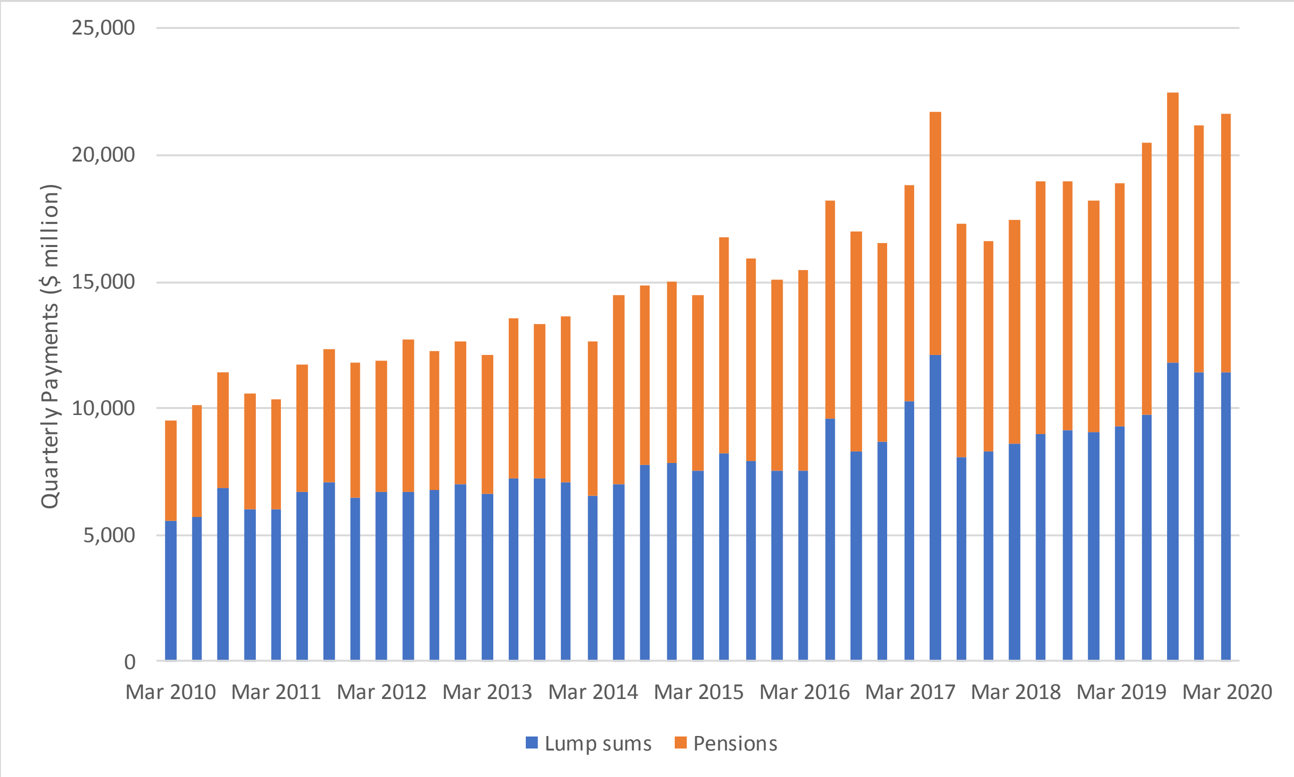
The performance of each fund type has stayed relatively similar over time, with members of all funds seeing strong growth in assets, with the exception over the recent quarter due to the COVID – 19 pandemic, with performance declining significantly. Figure 2 shows the rate of return over the last 10 years, where industry and public sector funds have produced stronger returns over the 10 year period relative to retail and corporate funds. This reflects member sentiment but also the difficulty retail funds have faced over the last 10 years in gaining and returning to members when competing against not for profit funds.

Asset Flows

Contributions to APRA regulated superannuation (excluding self-managed funds) amounted to $28.8 billion in the March 2020 quarter, a 7.5% increase from the March 2019 quarter.

As shown in Figure 3, $21.7 billion was paid in benefit payments in the March 2020 quarter, an increase of 14.8% from the March 2019 quarter. Total benefit payments for the year ending March 2020 were $85.8 billion.

Figure 3: Benefit payments – 31 March 2020



Source: APRA, Atchison Consultants

Asset Allocations

As shown in Table 3 below, superannuation entities reduced their exposure to Australian listed equity and listed property, by 3.4% and 0.7% respectively, while the largest increases over the one year period to 31 March 2020 included Cash and International fixed income, with increases of 3.5% and 0.4% respectively.

Table 3: Average Asset Allocation – 31 March 2020

Type	March 2019 (%)	March 2020 (%)
Cash	10.1%	13.6%
Fixed Income		
Australian Fixed Income	12.8%	12.2%
International Fixed Income	8.5%	8.9%
of which: currency Hedged	62.7%	59.9%
Total Fixed income	21.3%	21.1%
Equity		
Australian Listed Equity	22.1%	18.7%
International Listed Equity	24.4%	24.1%
of which: currency Hedged	29.9%	27.3%
Unlisted Equity	4.0%	4.6%
Total Equity	50.5%	47.5%
Property		
Listed Property	3.1%	2.4%
Unlisted Property	5.5%	5.9%
Total Property	8.6%	8.3%
Infrastructure		
Listed Infrastructure	1.5%	1.3%
Australian Unlisted Infrastructure	2.6%	2.8%
International Unlisted Infrastructure	1.5%	1.9%
of which: currency Hedged	62.2%	53.2%
Total Infrastructure	5.6%	6.0%
Commodities	0.1%	0.1%
Other	3.7%	3.5%
of which: Hedge funds	1.7%	1.5%
Total	**100.0%**	**100.0%**

Source: APRA, Atchison Consultants

Table 4 shows the weighted asset allocation for not-for-profit funds (industry and government superannuation funds), retail funds and mySuper funds.

Table 4: Superannuation Fund Asset Allocation – 31 March 2020

Type	Corporate (%)	Industry (%)	Public Sector (%)	Retail (%)	MySuper (%)
Growth Assets					
Equity	40.3%	47.8%	42.7%	51.6%	52.9%
Property	9.9%	9.5%	9.1%	6.0%	9.8%
Infrastructure	4.9%	9.5%	5.8%	2.1%	8.8%
Other	2.7%	2.1%	4.8%	4.2%	3.0%
Total Growth Assets	57.8%	68.9%	62.4%	63.9%	74.5%
Defensive Assets					
Cash	11.9%	13.0%	14.3%	13.8%	6.4%
Fixed Income	29.1%	18.1%	23.2%	22.2%	19.0%
Commodities	1.3%	0.0%	0.1%	0.1%	0.1%
Total Defensive Assets	42.3%	31.1%	37.6%	36.1%	25.5%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Source: APRA, Atchison Consultants

MySuper and industry funds represented the highest allocations to growth assets, relative to the other sectors, 74.5% and 68.9% respectively, while corporate funds represented the lowest allocation, 57.8%. In noting the above, MySuper funds held the highest allocation to equities, closely followed by retail funds, representing 52.9% and 51.6% respectively of the allocation. The largest allocations to property and infrastructure assets were industry and MySuper funds.

For further information please contact:

Kevin Toohey – Principal
Robert Lauria - Investment Analyst