

# ARA RETIREMENT FUND (ARARF) MEMBER OUTCOMES ASSESSMENT

## INTRODUCTION

In this report, Equity Trustees Superannuation Limited (we, our, us) publishes the results of our annual assessment of how well the ARA Retirement Fund (ARARF) product (the Product) issued from Aracon Superannuation Fund (the Fund) provides member outcomes and promotes members' financial interests. The assessment is based on information as at 30 June 2021.

## METHODOLOGY AND STRUCTURE

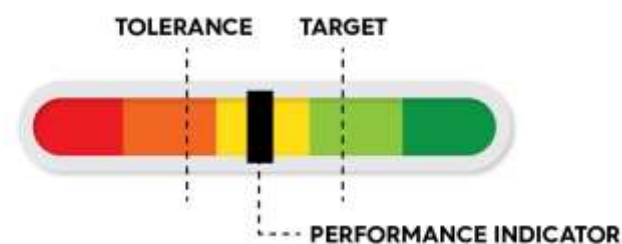
In conducting this assessment, we compared the Product to other choice superannuation products included in statistical data published by the Australian Prudential Regulation Authority (Comparable Products) using the criteria in Part 6 of the *Superannuation Industry (Supervision) Act 1993* and Prudential Standard SPS 515 *Strategic Planning and Member Outcomes*.

This report includes:

- our overall assessment of whether the Product provides optimal member outcomes and promotes their financial interests;
- a dashboard that depicts our assessment of the Product's market-relative performance for each outcome we aim to provide members;
- a table summarising the key metrics that we relied on when making this assessment; and
- our commentary on this performance that includes action items to improve suboptimal performance.

For each member outcome, the dashboard presents the relevant segment of market performance. The width of each segment is based on the range of market performance for each outcome and is specific to each outcome. The positioning of the black performance indicator bar against the colour coding is our assessment of how well the outcome has been delivered. The assessment of each member outcome is based on several equally-weighted metrics. Accordingly, if one metric is outside our tolerance level it doesn't automatically mean the entire member outcome is outside our tolerance level.

*Example dashboard for illustrative purposes only*



The target is generally the average position of the Comparable Products while the tolerance level is the trigger for us to consider any necessary actions to improve member outcomes.

Please visit our [website](#) to view a short video that provides more information about the operation of the dashboard.



## OVERALL ASSESSMENT

Having carefully considered the comparisons of the Product with Comparable Products set out in this report, including the dashboards, metrics, commentary, and other relevant information available to us at the time of writing, we have concluded that as a result of the following factors the Product is promoting members' financial interests:

1. the fees and costs that affect the return to members are not appropriate having regard to their financial interests;
2. the net returns for the Product (i.e. returns after deducting all fees, costs and taxes) are consistent with market rates;
3. the level of investment risk for the Product is acceptable in relation to the net returns generated;
4. the investment strategy for the Product is appropriate;
5. the options, benefits and facilities offered in the Product are appropriate for members;
6. the insurance premium charged for the Product does not inappropriately erode members' account balances;
7. the insurance strategy for the Product is appropriate; and
8. the scale of the Product and the Fund does not disadvantage members.

## ACTION ITEMS

Following the 30 June 2020 Member Outcomes Assessment, investment fees were reduced which took effect on 1 September 2021.

We are in discussions with the Fund Promoter about further fee changes, which will be reflected in the Fund's Strategic Business Plan for the financial years 2023 - 2025.

## DASHBOARD

### STRATEGIC CONTEXT

Working together with the Fund's Promoter, Aracon, and its sub-promoters, the Fund's purpose is to support members to effectively plan for their personal retirement needs with the choice and control that they desire through a combination of Sub Plans that:

- offer member directed investments through financial advisers;
- offer direct-to-consumer or business-to-business investment options through niche promoters utilising digital platforms; and
- use common operating models to generate size and scale within the Fund so to reduce costs to members.

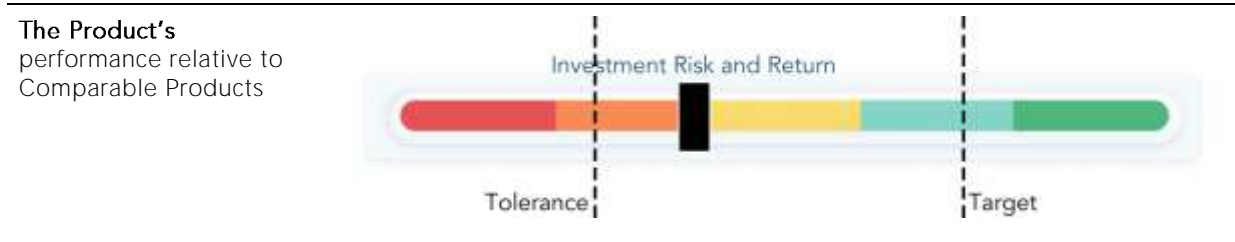
To support this purpose, our goals for the Fund are to ensure ongoing sustainability and produce scale benefits for members, and to provide members with quality services and support at a competitive fee structure.

The Product is a choice accumulation product.



## INVESTMENT RISK AND RETURN

Outcomes Investment risk and return for a \$50,000 account balance in the Product<sup>1.0</sup> is consistent with market indexes.



Metrics	Ref	Metric Label	Value	Tolerance	Target
	1.1	1-year actual net return	13.98%	9.47%	12.70%
	1.2	3-year actual net return	5.36%	5.03%	6.11%
	1.3	5-year actual net return	5.24%	5.39%	6.59%
	1.4	10-year actual net return	5.33%	5.71%	6.55%
	1.5	Negative annual net returns over last 10 years	1.78	2.00	1.00

1.0 Investment returns and associated targets and tolerance levels are weighted averages for the Product. The weighted averages are based on the performance, asset allocation and funds under management of the investment options available in the Product. The table in Appendix 1 provides more information.

1.5 Negative annual returns and associated targets and tolerance levels are weighted averages for the Product. The weighted averages are based on the performance, Standard Risk Measure and funds under management of the investment options available in the Product. Portions of years have been rounded up or down to a whole year.

### Commentary

The performance indicator measures the average investment risk and return of all investment options in the Product over one, three, five and 10-year periods.

The performance indicator, which does not meet our target and is within our tolerance level, is based on an equal weighting of all the metrics in the above table.

Appendix 1 displays the returns for each investment option available in the Product and its weighted average returns over these periods.

This commentary focuses on the five-year weighted average return to 30 June 2021, and the weighted average number of negative annual returns for the 10 years to this date. When reading this commentary, it's important to bear in mind that past performance is not a reliable indicator of future performance.

It is important to note that the vast majority of members are either in or approaching pension phase, therefore the Fund has a relatively conservative investment philosophy with capital preservation central to the approach.

Over the five years to 30 June 2021 the major detractor from investment performance was fees.

To reduce fees and improve net returns:

- following the 30 June 2020 Member Outcomes Assessment, investment fees were reduced which took effect on 1 September 2021, which have not had a full year effect; and
- we will continue discussions with the Fund Promoter about further remedial action and will contact members in due course.



Investment risk, as measured by the weighted average number of negative annual returns for the Product over the 10 years to 30 June 2021 does not meet our target and is within our tolerance level. No remedial action is required as a result of this assessment.

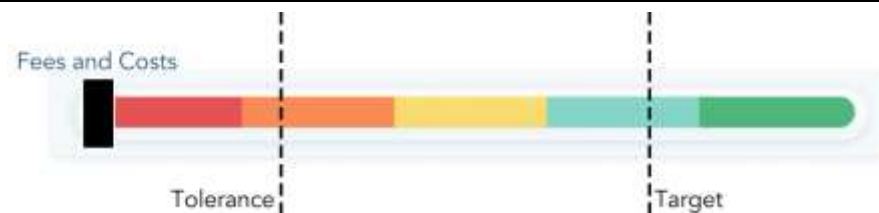
Therefore, we consider the:

- investment strategy for the Product is appropriate because the weighted average returns are within our tolerance level; and
- investment risk is acceptable in relation to the net returns generated because the weighted average number of negative returns is within our tolerance level.

## FEES AND COSTS

Outcomes Fees (gross of tax) for a \$50,000 account balance are consistent with market rates.<sup>3.0</sup>

**The Product's**  
performance relative to  
Comparable Products



Metrics	Ref	Metric Label	Value	Tolerance	Target
	3.1	Administration fees	0.10%	0.65%	0.40%
	3.2	Investment fees	2.58%	0.85%	0.60%
	3.3	Total fees	2.68%	1.50%	1.00%

3.2 These fees include a weighted average investment fee that is based on the investment fees and funds under management of the investment options available in the Product.

### Commentary

This table lists the Product's administration and investment fees (which include performance fees payable to some investment managers in the ARA Investment Fund). Other fees may be payable which are set out in the Product's disclosure documents.

The performance indicator measures administration and investment fees together against Comparable Products.

The performance indicator, which is outside tolerance level is based on an equal weighting of each metric in the above table.

As a result, we are not comfortable that the current fees and costs are consistent with market rates and therefore, do not advance members' financial interests.

Following the 30 June 2020 Member Outcomes Assessment, investment fees were reduced with effect on 1 September 2021, which have not had a full year effect.

We are in discussions with the Fund Promoter about further fee changes, which will be reflected in the Fund's Strategic Business Plan for the financial years 2023 - 2025.



## INSURANCE CLAIM MANAGEMENT

Outcomes	Valid claims are accepted and paid in a timely manner.
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### Commentary

As there have been no claims or complaints received during the period, no remedial action is required as a result of this assessment.

All insurance cover is voluntary. We believe that the appropriate level of insurance cover is a balance between the amount of cover required (based on the maintenance of the member's, and their dependants', standard of living in the event of a claim) and the affordability of that cover for the member.

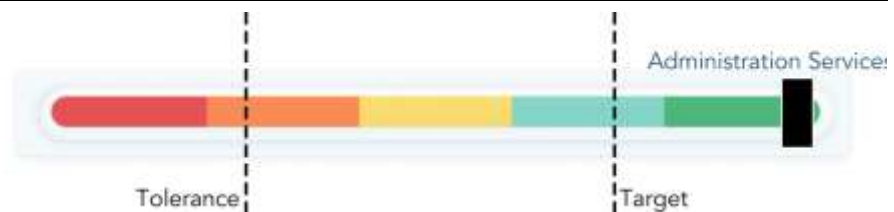
Members have the opportunity to select their own level of insurance cover or a pre-determined level of age-based cover which reduces over time, seek personal financial advice if required, and cancel their cover if no longer required. Therefore:

- the insurance premiums charged for the Product do not inappropriately erode members' account balances; and
- the insurance strategy for the Product is appropriate.

## MEMBER SERVICES

Outcomes	Administration services satisfy member expectations.
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**The Product's**  
performance relative to  
Comparable Products



Metrics	Ref	Metric Label	Value	Tolerance	Target
	7.1	Administration-related EDR complaints	0.00	4.82	2.07
	7.2	Service Level Achievement	100.00%	90.00%	95.00%

7.1 EDR means "External Dispute Resolution".  
7.1 This is the annual number of administration-related complaints to the Australian Financial Complaints Authority per 10,000 member accounts.  
7.2 Service level achievement measures the portion of new member, contribution and benefit payment transactions that were processed within our service level.

### Commentary

The performance indicator measures the delivery of administration services against our service levels.

The performance indicator, which meets our target and is within our tolerance level is based on an equal weighting of the above metrics.

Service level achievement (100%) meets our target. No remedial action is required as a result of this assessment.

There have been no complaints made to the Australian Financial Complaints Authority about administration services during the period. No remedial action is required as a result of this assessment.

As a result, we are comfortable that administration services satisfy member expectations because of the high rate of service level achievement and that there have been no administration related complaints received during the period. Therefore, we consider the options, benefits and facilities offered in the Product are appropriate for members.



## SUSTAINABILITY

**Outcomes** The Product and Fund are sustainable and likely to deliver optimal outcomes in the future.

The sustainability of the Product and Fund relative to Comparable Products



Metrics	Ref	Metric Label	Value	Tolerance	Target
	8.2	Net member benefit flows p.a.	33.50%	-29.51%	-1.52%
	8.3	Average account balance	\$304,213	\$23,530	\$124,315
	8.5	Movement in member accounts p.a.	50.66%	-36.39%	-8.01%
	8.6	Average member age	58.8	58.00	48.70

### Commentary

The performance indicator measures the Fund’s sustainability and likelihood of delivering optimal outcomes in the foreseeable future against other funds.

The performance indicator, which meets our target is based on an equal weighting of the above metrics.

Therefore, we are comfortable that the scale of the Product and the Fund does not disadvantage members.

While the Fund has grown rapidly, it is off a comparatively small base.

## LIQUIDITY

**Outcomes** Benefit and rollover requests can be met in a timely manner from investments

**The Product’s** performance relative to Comparable Products



Metrics	Ref	Metric Label	Value	Tolerance	Target
	9.1	Investment liquidity in a GFC scenario	84.66%	40.00%	80.00%

9.1 Liquidity is a weighted average that is based on the liquidity in a Global Financial Crisis scenario and funds under management of the investment options available in the Product. The table in Appendix 1 provides more information.

### Commentary

The performance indicator measures the Fund’s ability to meet benefit and rollover requests in a timely manner.

The performance indicator meets our target. No remedial action is required as a result of this assessment.

We regularly monitor whether the investments and insurance policies would be able to cash requirements in extreme situations. Based on our analysis, we consider that benefits are supported by liquid investments and an insurer with a strong capacity to meet its financial commitments. As a result, we are comfortable that the level of liquidity risk for the Product is acceptable.



# APPENDIX 1

## INVESTMENT OPTION INFORMATION

Name	Growth Ratio	Size (\$M)	Investment Returns (% pa)			
			1 Year	3 Years	5 Years	10 Years
Defensive Accum Option	18%	\$24.8M	6.62%	3.04%	3.10%	3.48%
Equities Accum Option	80%	\$10.9M	17.62%	6.74%	6.23%	6.04%
Growth Accum Option	58%	\$75.3M	15.88%	5.92%	5.80%	5.83%
Weighted Average	51%		13.98%	5.36%	5.24%	5.33%

This table provides information about the asset allocation, size and performance of the investment options available in the Product.