The Australian Prudential Regulation Authority has recently issued guidance to superannuation trustees regarding the labelling of superannuation investment options. The guidance places a welcome emphasis on the need for funds to substantiate claims made when describing the risk of their investment options. However, the guidance is less on the appropriateness of particular labels and more on the need for trustees to have justification for describing the frequency of negative returns relating to investment options. Importantly, the guidance specifically states that “APRA is not, currently, suggesting guidance on the risk level appropriate for labels such as ‘conservative’, ‘balanced’, ‘growth’ etc”. It could be argued that the “Labelling of investment options offered by superannuation funds” guidance note could be better labelled as “Substantiation of risk characteristics in investment options” (Australian Prudential Regulation Authority, 2010).

Since 1992 Australian employees have been made compulsory investors through superannuation and given the responsibility to choose from investment menus which use labels from a common industry wide set. Superannuation has become, next to home ownership, the second largest financial investment for most employees and with the increase in balances the importance of these choices has also increased. Although the Australian superannuation industry has been described as well regulated in other respects (Brown, Gallery, & Gallery, 2002; Clements, Dale, & Drew, 2006), the labelling of superannuation investment products is not. In the U.S. it has been suggested that poor labelling can create ambiguity in the level of risk associated with such products irrespective of the labels they are given by fund managers (Chan, Chen, & Lakonishok, 2002).

This paper briefly examines the current regulatory environment in Australia and draws on research from the U.S. to examine the factors that may influence the management and marketing of superannuation products and the potential impact of these on investor choices. Following this discussion, an analysis of the asset allocations of a sample of Balanced and Growth products from the Not-For-Profit and Retail superannuation sectors is presented. This analysis relies on both reported asset class exposures as well as estimated exposures utilising Returns Based Style Analysis (RBSA). Additionally, for the sample of retail products, a comparison is made between products which label themselves as Balanced or Growth and also those that have been classified as Balanced or Growth by Morningstar.

Labelling and the Australian regulatory environment

The Australian superannuation industry will continue to grow with the Super System Review suggesting a size of over six trillion dollars by 2035. The Super System Review argued that: “existing investment option descriptions do not allow members to make informed decisions because they provide inadequate information about the expected returns and volatility of various investment options” (Super System Review, Part Two, p. 109).

The report is equally direct in recommending against imposing either prescribed asset types or allocation ranges on the basis that it would not be feasible or desirable. Instead the review recommended: “a risk and return targeting framework in the formulation, disclosure and measurement of investment options and their performance” (Super System Review, Part Two, p. 109).
Choice, more specifically informed choice, has been a key component of the system advocated at the level of the fund choice, through Choice of Fund legislation in 2005, and investment choice which is offered by funds through ever increasing investment menus. The regulatory environment in which the Australian superannuation industry operates is both complex and detailed (Brown, Gallery, & Gallery, 2002; Clements, Dale, & Drew, 2006) with responsibilities spread among the Australian Taxation Office (ATO), the Australian Securities and Investment Commission (ASIC), and Australian Prudential Regulation Authority (APRA). In the absence of specific guidance from within superannuation related legislation, the Trade Practices Act (TPA) may provide the only available legislation on product labelling and product information communicated by packaging and labelling.

The Australian Competition and Consumer Commission (ACCC) provides businesses with information about federal competition, fair trading and consumer protection laws and is responsible for the administration of the TPA. The principle of the TPA is to ensure trading in the market place is fair for both consumer and businesses. The TPA covers unfair market practices, industry codes of practice, mergers and acquisitions of companies, product safety, product labelling, price and monitoring. The various Fair Trading Acts, also contain many of the same consumer protection provisions as in the TPA.

Regulators have the authority to intervene in the event of market failure in the financial services industry, which may occur when there is information asymmetry, external financial market failures or superannuation firms dominating market share (Bateman, 2003). Of these, information asymmetry is particularly relevant given the lack of defined investment labels for the superannuation products, which may present information asymmetry issues for consumers. Bateman (2003) has suggested information asymmetry is widespread in the superannuation industry given the competitive nature of the industry and the increase in the number of investment products available.

The Australian approach has some similarities with the approach to labelling in the US. In the U.S. the Securities and Exchange Commission has a rule, through the Investment Company Act2, which specifically excludes codification of labels such as “Balanced” or “Growth” suggesting that these are “types of investment strategies as opposed to types of investments” (Securities and Exchange Commission, 2001). The rule does require funds with names suggesting a type of investment, for example a “Bond”, “Stock”, or “Japan Stock” fund to have at least 80% invested in the named investment type. The Commission also retains oversight as to what may be misleading use of the terms with a guide that when “balanced” is used the fund “should invest at least 25% of its assets in fixed income senior securities and should invest at least 25% of its assets in equities” (Securities and Exchange Commission, 2001 footnote 42).

A classification system of mutual funds has been suggested as necessary to aid institutions and individuals to allocate investment assets (diBartolomeo & Witkowski, 1997). U.S. researchers have argued that the misclassification of assets could be resolved by improving classification methods as the lack of specific guidelines may play a role in misleading investors about the risk of available investment products (diBartolomeo & Witkowski, 1997; Moon, Shulka, & Tomas, 2000).

Some have argued, however, that further regulation in the Australian environment to strictly define investment labels may create homogeneous superannuation products which may limit product differentiation and decrease competition in the superannuation industry (Clements et al., 2006; Drew & Stanford, 2002), as well as erode fund performance (Brown, Gallery, & Gallery, 2002; Clements et al., 2006).

Marketing of superannuation products and impacts on consumer choice

A range of factors have been identified to explain how superannuation products are selected by members, including classification, framing effects, extremeness aversion, agency theory, and labelling. Gallery et al (2004) suggested that investment menu design or “framing effects” may influence investor choices. A “framing effect” is the presentation and position of products that may influence the decision making process (Agniew & Szykman, 2005; Gallery et al., 2004, p. 60). In Gallery et al’s (2004) study of default strategies the label “Balanced” was found to be presented and positioned in the menu to appear to be a moderate product but the actual risk characteristics varied among different superannuation funds (Gallery et al., 2004).

“Extremeness aversion” exists when a consumer is inclined to prefer a product that does not appear to be at the extreme of some appropriate scale (Benartzi & Thaler, 2002, p. 1608; Simonzon & Tversky, 1992). In the context of portfolio choice Benartzi and Thaler (2002) adapted portfolio menu designs to display a set of portfolios with increasing levels of risk. They found that when the sample group of investors chose between alternative products they chose products in the middle, which the researchers concluded to be the result of a tendency for investors to make their decision based on extremeness aversion tendencies (Benartzi & Thaler, 2002).

Another experiment manipulated menu design to see if investors would continue to remain in the default product linked to the investor’s level of financial education. The results suggested that menu design played a significant part in the choices investors made regardless of their financial education level (Agniew & Szykman, 2005).

It has been suggested in the U.S. that the ambiguity and lack of clear definition of mutual fund styles such as Income, Growth or Balanced inherently lead to
inadequate form of product differentiation (Chan et al., 2002). This may in itself allow managers to justify risk taking to improve their own, self serving, needs (Chan et al., 2002). Misclassification found in U.S. mutual funds has been suggested as a result of investment managers changing investment styles due to the lack of clear definition which allowed this to occur (Brown & Goetzmann, 1997; Chan et al., 2002). The investment manager may adopt trend chasing to achieve desired investment returns in doing so but may violate the classification of the fund.

By definition, superannuation is a financial product which is a service that facilitates the acquisition of a financial investment or management of financial risk (Australian Securities and Investments Commission, 2001 p. s12BAA). Labels should be used for superannuation products to convey risk, return and asset class information to the consumer when making a financial decision. A reasonable person (Fair Trading Act 1987) therefore might expect the information provided in the superannuation label to communicate the nature of risk, expected return performance, and the asset allocation structure of the product. Balanced and Growth labelled superannuation products or options are the focus of this study. In general usage, Balanced suggests a sense of equality or a well-adjusted approach whereas Growth is suggestive of a more expansive approach. These descriptions can however vary and may contain ambiguous meaning for the average member. For example, products labelled Balanced have been described as “moderate growth over the medium to longer term with moderate fluctuations likely” (AXA, 2009, p. 1). A Growth labelled product has been described as one which “aims to provide a high level of capital growth over the long term from a balanced portfolio of assets” (Westpac, 2008, p. 9). In these examples the word “moderate” is used to describe a balanced labelled product and the word “balanced” is used to describe a growth labelled product.

The expansion of investment strategy choices in superannuation funds emphasises the need for a member to be able to distinguish different levels of asset allocation via the investment label. The public must rely on information disseminated by the product disclosure statements to help choose their asset allocation mix. However, common labels may not represent the same asset allocation across all superannuation funds which may lead to unintended investment option decisions.

Whilst strict definitions for product labels are absent in current legislation and regulation, Balanced products are loosely defined as investing 60 to 70 percent in aggressive assets (equity and property), and 30 to 40 percent in defensive assets (fixed interest securities and cash) (Fido-Australian Securities and Investment Commission, 2007). Growth products have been loosely defined as investing 70 to 80 percent in aggressive assets and 20 to 30 percent in defensive assets. This notion benchmark will be employed in the later analysis.

What is defensive and aggressive?

A discussion concerning Balanced and Growth labels based on proportion of defensive and aggressive assets presupposes acceptance as to what is a defensive and aggressive asset. Although there is agreement on some asset classes, there remains ongoing discussion on others. There is general acceptance that equity and property are aggressive or growth assets and similarly that fixed interest and cash are defensive assets (Fido-Australian Securities and Investment Commission, 2007). The emergence of “alternative assets” has led to a greater discussion of the characteristics of these assets and how they should be classified. Moore and Monage (2007) have discussed issues that the emergence of Alternative Assets raise for policy makers in relation to superannuation. At a more practical level ASFA (2008) provides a useful discussion of alternative methods for classifying assets, notably those that fall under the Alternative Assets heading. The discussion paper classifies private equity as growth with other unlisted assets including property and infrastructure being split between defensive and growth, and hedge funds classified on the basis of the volatility of returns.

The current analysis does not seek to add to this discussion but does require a choice of classification. To that end, private equity is classified as aggressive and remaining alternative assets are classified as defensive when aggregations of asset classes are made. This needs to be borne in mind when results are discussed. As the results will show, this classification has become more of an issue only recently as in the first half of the 2000s the total exposure to alternatives was a small part of fund portfolios. The classification does not prevent an analysis of the relative allocation to alternative assets between Balanced and Growth products, which is perhaps more instructive. The issue is also of more consequence for Not-For-Profit funds with larger allocations in this area.

Analysis methodology

Sample

To investigate the asset allocation of similarly labelled products, two samples of superannuation funds were examined. The first sample contained Not-For-Profit (NFP) fund default options and examined the reported strategic allocations over the period 2002-2008. The second sample contained retail fund products over the period 2005-2008. Analysis of this second sample examined the reported allocations and additionally the effective asset class exposures estimated through returns based style analysis. This second sample was further split in two ways. In the first the label used by the fund was the basis of classifying the funds as Balanced or Growth whereas in the second split the classification of the product by Morningstar was used to assess the asset class allocation.

The reported asset allocations for NFP Balanced and Growth default products were provided by Rainmaker. The reported asset allocations for the retail products were obtained from the fund website and publicly available resources including Commsec, InvestorSmart and NineMSN Money. The monthly returns data for the retail products was sourced from Morningstar. The monthly returns for indices required for the returns based style analysis was sourced from Morningstar, Datastream and Mercer.

The data for NFP products was provided by Rainmaker and includes full year data sets between June 2002 and June 2008. The analysis was restricted to NFP products categorised as default options. A total of 30 Balanced default products and 16 Growth default products were available.

Retail product analysis was restricted to those products with allocations across multiple asset classes. This provided 92 multi-sector products with “Balanced” in the label and 265 multi-sector products with “Growth” in the label. When products with duplicate underlying portfolios were eliminated a total of 81 products were examined. Samples were divided into Multi-Sector Balanced and Multi-Sector Growth as per Morningstar classification. Table One indicates that 42 products used the Balanced label though
20 of these products were classified by Morningstar as Growth. Of the 39 products labelled as Growth all but three were classified as Growth by Morningstar.

Table 1: Retail sample overview by Morningstar classification (Multi-Sector Balanced and Growth) and product label (Balanced and Growth).

<table>
<thead>
<tr>
<th>Classification</th>
<th>Balanced</th>
<th>Growth</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multi-Sector Balanced</td>
<td>22</td>
<td>3</td>
<td>25</td>
</tr>
<tr>
<td>Multi-Sector Growth</td>
<td>20</td>
<td>36</td>
<td>56</td>
</tr>
<tr>
<td>Total</td>
<td>42</td>
<td>39</td>
<td>81</td>
</tr>
</tbody>
</table>

Asset classes
A total of eight asset classes were used in the reported allocations of NFP products: Australian Equity; International Equity; Property; Private Equity; Australian Fixed Interest Securities; International Fixed Interest Securities; Cash; and Alternative Assets. For Retail products Alternative Assets included Private Equity. The second analysis of the Retail sample of products estimated exposure to each of these asset classes excluding Private Equity and Alternative Assets. These were excluded purely because of the paucity of suitable matching benchmark indices. The Alternative Assets category is not an asset class per se but a collection of smaller asset class allocations, including Private Equity in some cases. Another prominent group within this category is Absolute Return Strategies which has been defined as a collection of diversified non-traditional investment products that have low correlation to traditional asset classes (AMP, 2007; Australian Super, 2008; ING, 2008). Aside from Private Equity, Alternative Assets can also include Infrastructure, Hedge Funds and Commodities.

Returns based style analysis index selection
Given the sensitivity of estimates of asset class exposure using RBSA a range of asset class indices were investigated for this study. The objective was to consider asset class indices that would capture the largest proportion of the investable market of investable assets and explain the largest proportion of returns variance. Exposure to the Australian equity market was estimated using MSCI Australia growth and value indices. International equity exposure was included through the MSCI World ex-Australia value and growth indices. Property exposure was estimated through S&P/ASX 300 A-REIT and Mercer Unlisted and Direct Property indices. Australian Fixed Interest was included through the UBS Composite index and International Fixed Interest through Citigroup WGBI ex-Australia. Cash exposure was included through the UBS Bank 0+ Yr index.

The RBSA provides a point estimate of asset class exposure at June 2008 using the preceding 36 months of returns data. In contrast to the reported allocations, RBSA attempts to explain what combination of asset class exposures best explains the variability of returns, assuming that asset class exposures can only be positive. In short, it is more concerned with how the product behaves rather than what the product states that it is invested in. The aim of RBSA is to identify the “best set of asset class exposures that total 100%” using only basic information available on the funds strategy (Sharpe, 1992, p. 11). RBSA is not without limitations including the selection of indices, the constraint of non-negative weights, and choice of estimation period.

Results
Not-for-profit defaults – balanced and growth
A first summary of Balanced and Growth options is shown in Figure 1 which provides the mean allocation to each asset class as a guide to the importance of respective asset classes. The figure suggests that while Australian equity is important to both labels it is not a point of difference, at least in terms of the mean allocations. Similarly Property and International Fixed Interest mean allocations are similar between labels. Points of difference in mean allocations do appear in International Equity, Australian Fixed Interest, Private Equity and Cash. The figure also shows that by the end of the period Alternative Assets had become an asset class of size and importance for both labels.

Figure 2 presents a summary of asset allocations through box plot graphs of each asset class. The box covers asset allocations between the 25th and 75th percentiles. The lines above and below the box extend 1.5 times the box size from the median. The dots represent outliers outside of this range. Overall, the graph suggests a wider variation in reported asset allocations of Balanced and Growth options compared to Retail products.
Figure 2: Reported asset class allocation for NFP balanced and growth labelled products 2003–2008: 31 balanced, 16 growth products.
products. The only exception to this is in the allocation to Private Equity where Growth products have a wider range of allocations. The results also suggest a wide variation in allocation to each asset class both across the sample of funds each year and over time.

For Balanced products the median allocation to Australian equity was between 31 and 35 percent over the period with one product consistently above 60 percent and another at 20 percent. For Growth products the allocation was comparable over much of the period though was lower in 2007 and 2008. The range of Australian equity allocations was smaller for Growth products compared with Balanced products. The median allocation to International equity was consistently higher for Growth products (26 percent) compared with Balanced products (21 percent). The range of allocations was generally larger for Balanced products, varying as much as a zero allocation to 37 percent.

The median property allocation for Balanced and Growth products was largely the same at approximately 11 percent. The maximum allocation to Property was generally lower for Growth products. For example, in 2002 the largest exposure to Property in Growth products was 22 percent whereas in Balanced products it was 37 percent.

Private Equity allocation was consistently larger for Growth products though the median allocation for both was small overall. Growth products had a median allocation of eight percent over the period with Balanced products a median allocation between one and four percent. The range of allocations increased for Growth products over the time period, with maximum allocations between 2006 and 2008 close to twenty percent whereas the maximum allocation in Balanced products was closer to ten percent. A notable feature of Balanced products allocation was the outlier allocations with one product having a 41 percent allocation in 2008.

Balanced products have a greater allocation to fixed interest securities though this is only consistently so for Australian Fixed Interest. Both Balanced and Growth products reduced exposure to Australian Fixed Interest securities over the period with the allocation in Growth products two-thirds that of Balanced products. The range of allocations to Australian Fixed Interest reduced for Growth products suggesting a clearer view of its role in such products. Allocation to International Fixed Interest was lower relative to domestic allocations, though it increased for Growth products in 2008 and it was larger for Growth products. The range in allocations was large, for example in Balanced products the minimum allocation was three percent and maximum 31 percent in 2002. Median reported Cash allocations were consistent over the period between six and eight percent for Balanced products and two to three percentage points lower for Growth products, with a smaller range of allocations by Growth products. Finally, the figure illustrates the increased importance of Alternative Assets in allocations though still ranking behind property and fixed interest securities collectively over the period. For example, the median allocation of Balanced (Growth) products to Alternative Assets increased from two (zero) percent in 2002 to approximately ten (14) percent in 2008. Further the variation in allocation also increased over the period with Balanced (Growth) products with a range in 2008 of nil (nil) to 23 (37) percent. The increased exposure to Alternative Assets by Growth products in 2007 and 2008 can be contrasted with the smaller allocation in 2006. This suggests that the Alternative Assets grouping may need further refinement to better distinguish its aggressive or defensive orientation.

With the caveat of the difficulty in classification of Alternative Assets, Figure 3 provides a consolidated profile of aggregated defensive and aggressive asset allocations for Balanced products with all seven observations of the 31 NFP Balanced products presented.
That is, there are 217 product year observations in the graph. Of these, half had defensive (aggressive) allocations between 30 (70) to 40 (60) percent (within the dashed lines), which is one of the notional definitions for what constitutes a Balanced product (FIDO-Australian Securities and Investment Commission, 2007). A total of 41 percent of products had defensive asset allocations lower than 30 percent and eight percent had higher allocations than 40 percent. At the extreme end of the range there are several observations of aggressive (defensive) asset allocations over ninety (ten) percent.

Figure 4 provides a consolidated profile of aggregated defensive and aggressive assets for Growth products with all seven observations of the 16 products presented. That is, there are 112 product year observations in the graph. Observations suggest that 51 percent invested within the notional defensive (aggressive) asset benchmark of 20 (80) to 30 (70) percent (FIDO-Australian Securities and Investment Commission, 2007). A total of 32 percent of growth products had a defensive allocation lower than 20 percent and 17 percent had higher allocation than 30 percent.

Collectively the results suggest that for the sample of NFP products only half of the observations were within the notional aggressive/defensive asset allocation benchmarks for both products. There was a difference in the level of allocation to aggressive/defensive assets as the labels would imply. The difference in median allocation to aggressive assets was approximately eight percentage points more for Growth products. Whilst there is the difference in median levels, there is considerable overlap in the range of allocations between the products. In total there is more evidence suggesting the products have more aggressive allocations than the notional benchmarks would suggest. In general the allocation range is smaller for Growth products. That is, an individual relying on the Balanced label in the NFP sphere will encounter significant variation in exposure to individual asset classes and overall aggressive/defensive split. There remains an inherent problem when members try to compare performance of these products given that the underlying cause of observed differences is fundamentally asset class based, not necessarily skill, good management or administration.

**Retail Investment Products**

The analysis of retail products extends the NFP analysis. Whereas the NFP data afforded an analysis over time, the retail analysis focuses on the reported allocation at a point in time being 2008. However, the retail products are also assessed by using estimated effective asset class exposure using returns based style analysis (RBSA). RBSA does not rely on what the fund reports the allocation to be but instead estimates what asset class exposure would have most likely produced the returns achieved by the product. For this analysis the 36-months of returns to June 2008 was compared with the returns achieved by the major asset classes over the period. The analysis of reported allocations is not as refined as for NFP options as there is no Private Equity reported. Additionally, the RBSA does not include an estimation of Alternative Assets exposure due to the absence of suitable indices as previously discussed.

Aside from comparing reported and estimated allocations, the retail products were grouped in two ways. The first relied on what the fund itself labelled the product. The second relied on how the product was classified by Morningstar. In effect this attempts to answer the question for a member of whether it is more instructive to look to the fund itself to describe what the product is, or to the judgement of an external research company. Figure 5 presents a breakdown of the mean allocation to each asset class. The top panel summarises the reported allocations and the bottom relies on estimated asset class exposures using RBSA. Within each panel the mean exposures for Balanced and Growth products presented according to how the fund itself labelled the product (Label) and also according to how Morningstar classified the product (Classified).

Based on 2008 data, Figure 5 identifies that relative to NFP products, Retail products had a smaller (five percentage points) reported allocation to Australian equity and a corresponding larger reported allocation to International equity. Mean Property allocation was smaller for Retail products relative to NFP products. The reported mean allocation to Australian and International Fixed Interest of Retail products was at least double that of NFP Balanced and Growth products. Correspondingly the reported mean Alternative Assets allocation was less than five percent for both Balanced and Growth products whereas for NFP products the mean was ten and thirteen percent respectively in 2008. The two key asset classes which differentiate Retail Balanced and Growth products can be seen in the
Investment

mean allocations to equity and Australian Fixed Interest. This was much more pronounced than for NFP products, particularly equity.

The estimated exposure to each asset class using RBSA suggests a larger International equity exposure and corresponding smaller Australian equity exposure. The small reported Alternative Assets allocation appears to have been absorbed into equity exposure when the RBSA is estimated. In terms of whether the label itself or the classification is more useful in providing distinctive asset class allocations, whilst there are some minor differences in mean asset allocations, there is no clearly better grouping.

Figure 6 through Figure 9 summarise the distribution of asset class allocations for Retail products. Focussing first on the reported allocations, there is a clear distinction in the allocation to Australian and International equity between Balanced and Growth products. For example the median allocation to Australian equity is 28 percent for Balanced products and 34 percent for Growth products. A similar difference is evident for International equity allocations. There remains an overlap in the distribution of allocations, as was evident with NFP products, but this appears less pronounced for Retail products. That is, it is more likely that a Growth product will have a higher equity exposure than a Balanced product. This is the same whether the label is used or whether classification of the fund is relied on to distinguish the products. When RBSA is used to estimate the effective exposures the products have, the distinction between Balanced and Growth products is reduced. As noted previously, the RBSA estimates indicate that the effective exposure to International equity is larger than the reported allocations would suggest, in large part due to Australian equity returns behaving as if it were International equity returns. As with NFP products, Property allocation is comparable between Balanced and Growth Retail products. The allocation to Australian Fixed Interest was lower, as would be expected, in Growth products and there was less overlap in the distribution of allocations. This was less so for International Fixed Interest, where whilst the reported allocation was lower for Growth products, there was much more overlap in the distribution of allocations. As expected reported Cash allocations were lower for Growth products with some overlap in the distribution of allocations. Reported median Alternative assets allocations for both Balanced and Growth were very low with a wider range of allocations in Growth products but no distinctive pattern to distinguish the two products.
When reviewing the RBSA estimates it needs to be remembered that they are based on three years of monthly returns to June 2008 and will therefore be impacted by the GFC. As such it could be argued they are not representative of what might be “typical” during more benign markets and may reflect deliberate asset re-allocations reflecting the period. Equally it could be argued that this is the very time that labels are of particular relevance given the increased propensity of fund members to make investment changes during this period. The other limitation of RBSA here is that it excludes an estimate of exposure to Alternative Assets. However as the reported allocations suggest these are a much smaller component of Retail products, and in terms of the other asset class exposures, should not distort results.

The RBSA estimates suggest that Cash exposures were larger, particularly for Balanced products, than the reported allocations. This may reflect deliberate portfolio adjustments collectively by these products during the period. In part this may also reflect the small Alternative Asset class allocations and to a lesser extent Australian Fixed Interest. The RBSA estimates suggest that the allocation to Cash is less distinctive than the reported allocations would suggest given the greater overlap in allocation distribution.

Finally, there are only marginal differences when relying on the Label chosen by the fund and the classification of the product by Morningstar. There is some limited evidence that the Morningstar classification does provide a clearer distinction in the allocation to International Equity and Cash between Balanced and Growth products though overall the distributions of asset allocations are very similar. Because of this the remaining discussion focuses on the reported allocations of Retail products.

Figure 10 to Figure 13 provide a summary of the consolidated aggressive and defensive asset allocations. Collectively they indicate that both Balanced and Growth products have more conservative allocations than would be suggested by the notional benchmark for Balanced (Growth) products of 30 (20) to 40 (30) percent defensive assets. Based on what funds report they allocate, 27 of 42 (22 of 39) Balanced (Growth) products had more than 40 (30) percent allocated to defensive assets. Only five Balanced and three Growth products had less than 30 (20) percent allocate to defensive assets. This means approximately only one in four Balanced products and one in three Growth products were within the notional asset allocation range based on what is reported. If the aggregation is based on the estimated exposure using RBSA the products behaved more aggressively than their reported allocations would suggest. Based on the RBSA estimates, 20 of 42 (16 of 39) Balanced (Growth) products had more than 40 (30) percent allocated to defensive assets. Only four Balanced and two growth products had less than 30(20) percent allocated to defensive assets. This means approximately only one in two products were within the notional asset allocation range.

Summary
A superannuation product label should communicate useful product information to members. Australian regulators have recently reaffirmed a preference for not prescribing asset allocations to match a label definition. The sample of NFP and Retail Balanced and Growth products used in this study demonstrates wide variation in asset allocations. For NFP products the sample suggests wide variation in allocations within individual asset classes as well as when individual asset classes are consolidated into broader aggressive and defensive allocations. There is further evidence of variation over time. The evidence suggests that both Balanced and Growth NFP products are more aggressive than the notional benchmark which suggests that Balanced (Growth) products have between 60 (70) to 70 (80) percent allocation to aggressive assets. Depending on how the products are aggregated at most half of the products are within the notional range.

The result is similar for Retail products although here the sample was restricted to 2008 reported and 2006-2008 estimated allocations. The evidence for Retail products is that they are more defensive than the notional benchmarks would suggest. Approximately two-thirds of Balanced products reported allocations were more defensive (greater than 30 percent) and one-half of Growth products were more defensive (greater than 20 percent) then the frequently cited notional benchmarks provided by ASIC (FIDO).
In comparing Balanced and Growth products there is considerable overlap in the range of allocations to individual asset classes and consolidated defensive and aggressive asset classes. This doesn’t make the member’s task of making an informed choice any easier. Even given the apparent preference for targeting risk levels, however defined, rather than asset class allocations as the basis for defining labels, the current analysis would suggest this would similarly reveal considerable overlap at present.

Consumer protection legislation seeks to ensure labels attached to products identify the contents of that product and communicate accurately the product information. If the label does not match the contents then the consumer has the right to question the validity of the product and request a refund under the premise that the product is not fit for its stated purpose. We should similarly expect that a superannuation product that is integral to the retirement saving of Australians be similarly accountable to its label. There are potential risks in creating more homogenous products and reducing competition. However, given the evidence available it appears that a superannuation member may not be adequately protected by current legislation. 

Notes
1 Whether the use of such a description is an appropriate or useful description for individuals is a separate issue of interest.
3 S&P value, growth and size indices were also estimated and produced essentially the same results. The results utilising the least number of indices, the MSCI indices, are reported here.

References


