

Our 2023 performance test results

1 September 2023

Two of our options did not pass the superannuation regulator's recent performance test. Here we explain what happened.

Which investment options did not pass the performance test?

smartMonday was notified at the end of August 2023 that of its 10 diversified investment options tested by the Australian Prudential Regulation Authority (APRA), two did not pass test. These were the **Moderate – Index** and **High Growth – Active** superannuation investment options.

For members invested in the two affected options we do understand that reading the word 'fail' can be alarming. So here we will give you context and perspective on what that means. (And please know that [our smartCoaches are available to talk](#) about your investments at any time.)

What is the annual performance test?

APRA's annual test checks how much your super investment option has earned (after costs) over time. It compares your investment option's earnings with those of a similar investment option over the same period. The test is done at the investment option level. There may be a range of fees associated with an investment option. The test does not account for your personal situation, fees or tax. Super funds with investment options that fail this test are required to tell you. You can find out more about super at [the MoneySmart website](#).

What are these two options?

Moderate – Index is a defensive investment option designed to preserve wealth. It is intended to be suitable for those who can tolerate negative returns in some years because they intend to remain invested in this option for the suggested minimum timeframe of three years. In the 2022-23 financial year it returned 4%, close to its annualised returns over the past 10 years.

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High Growth – Active is a higher risk investment option designed to increase wealth. It is intended to be suitable for those who can tolerate negative returns in some years because they intend to remain invested in this option for the suggested minimum timeframe of 15 years. In 2022-23 financial year it returned 11.5% (a few points above its annualised returns of 8.8% over the past 10 years). It was also ranked by SuperRatings among the top 10 high-growth investment options industry-wide for the three-year period ending in June 2023.

Why did these options fail?

This is the first year that APRA has conducted a performance test of what are called ‘choice’ superannuation products (investment options that are usually based on specific [asset classes](#) or [risk levels](#) and are not the standard MySuper product). The test measures how an option performs over eight-years against a hypothetical benchmark created by APRA based on the option’s own asset mix.

The **Moderate – Index option** is one of our more defensive investment choices (with a primary aim to preserve members’ wealth). This option underperformed materially in two quarterly periods during the eight-year time horizon used for the test. The first period was the ‘covid quarter’ from January to March 2020. The option at this time was ‘overweight’ in growth assets – the type of assets that fell the most during the rapid downturn in markets.

The second period was the April-to-June quarter of 2022 which was the start of the rapid change in interest rates by the Reserve Bank of Australia and other central banks. At the time the option owned ‘overweight’ exposures to fixed-interest securities that performed poorly. These securities were mainly inflation-linked bonds issued by the Australian government and high-quality corporate bonds. The option continues to hold these exposures in expectation of attractive yields from very secure securities.

Most recently in 2023 we invested the option defensively, in expectation of tougher economic conditions. While this action has detracted from performance (as sharemarkets rallied on artificial intelligence news) we retain conviction in our view.

The option employs an index strategy meaning it seeks to match the performance of investment markets, before fees, alongside a small amount of asset allocation decision making. It is not designed to ‘catch-up’ on negative periods but rather mirror market movements.

The **High Growth – Active** option has a higher risk level as one of our most growth-focused investment choices (with a primary aim to increase members’ wealth).

For the early part of the eight-year test period the option was invested with an active investment manager who significantly underperformed. We commenced divestment of the manager from 2019, introducing new managers and investment strategies that have improved performance, catching up

to but not outperforming APRA's test.

Most recently, in 2023, we invested the option defensively, in expectation of tougher economic conditions. This decision increases exposure to alternative investments such as infrastructure. While this action has detracted from performance (as sharemarkets rallied on artificial intelligence news) we retain conviction in our view.

What we are doing to improve performance

First, let's clarify the performance of these options to date:

- smartMonday's **Moderate – Index** option returned 3.8% each year (in annualised returns) over the 10 years to the end of June 2023. You can [review our investment performance here](#).
- smartMonday's **High Growth – Active** option returned 8.8% each year (in annualised returns) over the 10 years to the end of June 2023. It ranked among the top 10 high-growth options for performance according to SuperRatings for the three-year period ending June 2023. You can [review our investment performance here](#).

In recent years we've made several changes to improve the performance of these options, including:

- reducing fees in 2022, with consideration to lower them again in the near future.
- changing external investment managers to focus on higher performance
- improving processes and introducing systems to enable more timely reaction to market changes
- positioning the options defensively in anticipation of a poorer economic outlook.

The impact of these changes – which are starting to bear fruit – are not yet reflected in the APRA test results which cover the past eight years.

What can you do?

Firstly, we encourage all members to consider their superannuation as a long-term investment, where ups and down are to be expected.

If you would like to change your investment option then please review smartMonday's other options, such as our [range designed around risk levels](#) and our [sector-specific options](#). Also take a look at their [investment performance](#).

You may like to consider options that match the risk level of your current investment. For example, the risk level of our High Growth – Active option is mirrored in our [High Growth – Index option](#), with both 100% invested in growth assets (as are many of our [sector-specific options](#)). (Any investment switch could mean different fees for that option, so please consider that in any potential change.)

If you're considering leaving smartMonday then please review any insurances that you hold and any other benefits you may have, as these may be lost if you close your smartMonday account. If you are unsure of your insurances and benefits, log in to [your personal homepage](#) to review them. If you'd like to transfer funds the [benefit transfer request form](#) is available on our website.

You can [talk to a smartMonday smartCoach](#) at any time about your investment choices and the options available to you.

For any investment change, it's always worth taking time to think through what you want to achieve and what a change may mean for you in the long term. The following resources may help:

- Read our article '[Building wealth is all about risk](#)'
- Here is [a quick guide to smartMonday's investment options](#)
- [Speak with a smartCoach](#) to discuss your options
- Review our [investment option performance](#)

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