



APRA

# METHODOLOGY PAPER

## Choice Heatmap

December 2021

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# Chapter 1 - Introduction

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To improve transparency in the choice sector and hold trustees accountable for outcomes they deliver to choice members, APRA will publish the Choice Heatmap (the Heatmap) on an annual basis, with the first iteration covering a subgroup of the choice sector. This paper details the methodology used to produce the Heatmap.

Like the MySuper Product Heatmap, the Choice Heatmap provides credible, clear and comparable information on the investment returns, fees and costs of a segment of choice investment options, highlighting areas of poor outcomes for members. The insights in the Heatmap should be used to gain an overview of relative outcomes delivered in the choice sector.

The Choice Heatmap uses a threshold for significant investment underperformance of -0.50 per cent, consistent with the MySuper Heatmap.

It is important to note that the Heatmap does not provide information on all the relevant factors that should be considered in assessing the outcomes or appropriateness of a particular choice offering. Accordingly, the Heatmap should not be used in isolation to inform decisions regarding an individual employer, adviser or member's choice of a superannuation product.<sup>1</sup>

APRA has sourced data for the Heatmap from SuperRatings, including investment returns and fees for choice investment options. APRA's own data collection covering choice investment options, developed through the Superannuation Data Transformation (SDT) project, will be utilised for future Choice Heatmaps.

The Heatmap covers multi-sector investment options. Details of how the scope for the Heatmap was derived are provided in Chapter 2.

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<sup>1</sup> Useful information for consumers seeking to better understand superannuation can be found on the Australian Securities and Investments Commission's [MoneySmart](#) website.

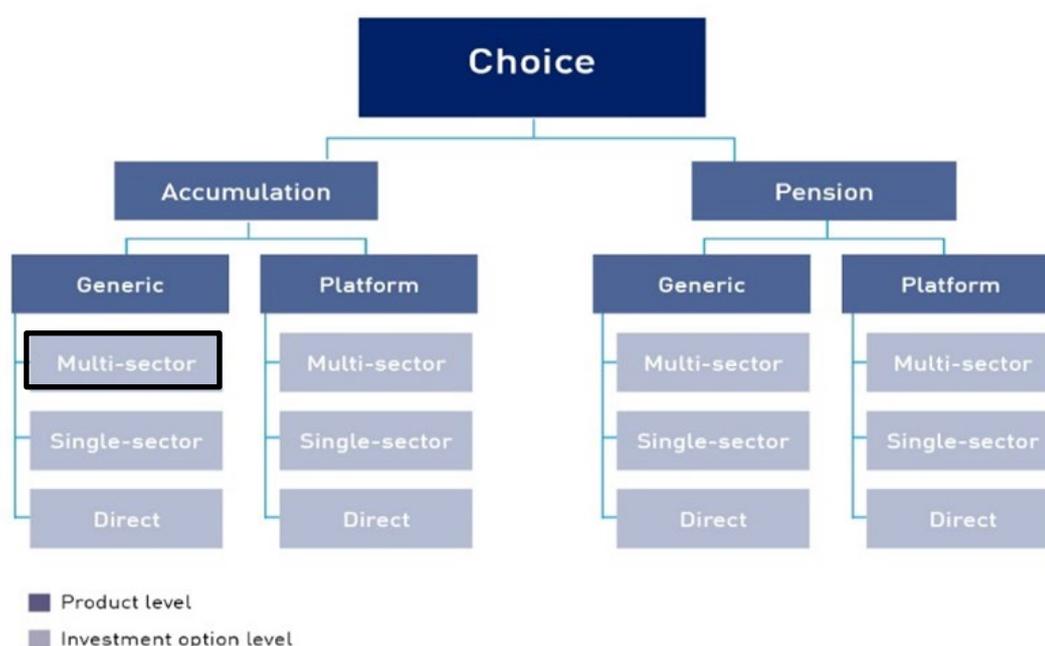
# Chapter 2 - Scope for the first Choice Heatmap

Unlike MySuper products, which offer a single investment option<sup>2</sup> and are designed to be simple, low cost products, choice products are heterogeneous and complex. In the choice sector, RSE licensees may offer multiple products, which may include:

- **A wide range of investment options**, including multi-sector (such as balanced, growth or conservative), single sector (such as Australian equities or cash) and direct investments (such as shares or term deposits), to suit the different needs and risk profile of members.
- **Additional features and services**, including additional online website functionality and member reporting, and other member tools.

The different components of the choice sector are outlined in Figure 1.

*Figure 1. Segmentation of the choice sector*



<sup>2</sup> MySuper products may offer a single, diversified investment strategy or a lifecycle investment strategy, which adjusts its asset allocation based on factors including age, as their investment option.

APRA's initial area of focus in the choice sector will be investment options that fall within the multi-sector<sup>3</sup> category in open<sup>4</sup>, accumulation products (highlighted in Figure 1).

The reasons for this are:

- APRA is utilising existing methodology from the MySuper Product Heatmap. Further, due to MySuper products having multi-sector investment strategies, this initial focus area will allow for comparisons between outcomes delivered by MySuper and choice products.
- More members invest in multi-sector investment options than in single sector investment options (based on analysis of member accounts data from a select group of funds)<sup>5</sup> and these investment options account for a larger proportion of choice assets than single sector investment options.
- The options covered in the Heatmap are similar in nature to trustee-directed products assessed in the annual performance test<sup>6</sup>, which APRA will administer from 1 July 2022. A key difference being that the performance test covers options offered on platforms<sup>7</sup>, whereas the Heatmap does not cover options offered through platform structures.

Based on SuperRatings' coverage of the choice sector, the initial area of focus results in a dataset containing 727 choice investment options for analysis across 120 products<sup>8</sup>.

The Information Paper *Choice sector performance: improving outcomes for superannuation members* provides insights into the structure of the choice sector and APRA's approach to segmenting the choice sector.<sup>9</sup>

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<sup>3</sup> Multi-sector investment options in this Heatmap are options classified as "diversified" in SuperRatings product coverage.

<sup>4</sup> Products that were open to new members as at 30 June 2021 are in-scope for the Choice Heatmap.

<sup>5</sup> Rice Warner – Superannuation Insights 2019 – Investment insights.

<sup>6</sup> [Treasury Laws Amendment \(Your Future, Your Super—Addressing Underperformance in Superannuation\) Regulations 2021](#).

<sup>7</sup> Provided the option satisfies the requirements set out in regulation 9AB.2(2) of the SIS Regulations, and does not fall within an exception specified in regulations 9AB.2(5) to (7).

<sup>8</sup> In cases where there were multiple divisions of choice products within the same fund (e.g. personal division and an employer division) and the fees charged to members and the investment options offered are the same, only one product division is included in the Heatmap. Where fees differ between different divisions, these divisions are treated as separate products.

<sup>9</sup> [Information Paper - Creating transparency in the choice sector](#).

## 2.1 Products and options that are out of scope

The following products and options are not in scope for the first Choice Heatmap:

- **MySuper products**, including single strategy products and lifecycle stages or investment options in lifecycle products<sup>10</sup>, as the outcomes delivered by these products are assessed in the MySuper Product Heatmap.
- **Platform products**. Member directed or wrap platform products have been excluded. SuperRatings has applied the following criteria to identify platform products:
  1. The members in the product are required to hold a cash account;
  2. Assets are held at the member level; and
  3. The product does not offer an investment option that is covered in the MySuper Product Heatmap.
- **Defined benefit**. Investment returns do not directly impact the outcome for members in retirement. Generally, this is due to the employer, rather than members, bearing the investment risk in defined benefit interests.
- **Pension products**, including annuity style products and account-based pension products. These products often have different objectives to accumulation products, including providing members an income stream.
- **Legacy products**. These products are not in scope for the first Choice Heatmap based on the availability of data.
- **Single sector options**. These are investment options that invest in a single asset class, for example, Australian Equities or International Equities.
- **Enhanced cash options** (or similar), which SuperRatings has classified as multi-sector in their dataset.

APRA will consider how to improve transparency across these products and options, as data becomes available.

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<sup>10</sup> Lifecycle stages which are fully invested in an investment option that is offered to choice members have been excluded from the Choice Heatmap

# Chapter 3 - Heatmap elements and presentation

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## 3.1 The Heatmap metrics

The extension of APRA's Heatmap work to the choice sector provides a significant improvement to the transparency and accountability of outcomes delivered by the choice sector. It builds on APRA's commitment to protect the financial interest of superannuation members and eradicate unacceptable product performance in the superannuation industry.

The Heatmap provides information on relative outcomes for members, in particular poor outcomes, of a sub-set of the choice sector. The Heatmap metrics are based primarily on choice sector data sourced from SuperRatings and include:

- **investment return metrics** over three, five and seven-year time horizons for choice investment options;
- **administration and total fees metrics** covering representative member account balances of \$10,000, \$25,000, \$50,000, \$100,000 and \$250,000 calculated at the product level; and
- **sustainability metrics**, including member account and net cash flow measures (calculated at the RSE level) that provide an insight into the ability for an RSE licensee to continue to provide appropriate member outcomes.

## 3.2 Displaying the metrics

The Heatmap is presented with a colour overlay that provides stakeholders with a visual illustration of the outcomes provided by choice investment options relative to peers and appropriate benchmarks. The colour overlay particularly focuses on investment options that are delivering poorer outcomes relative to other investment options or the selected benchmarks.

The colour overlay has a continuous colour gradient rather than a small number of discrete colours. This approach has been taken so that the Heatmap emphasises areas of material poor outcomes, and is not categorising products as 'good' or 'bad' overall. The Heatmap metrics have been mapped to the 'heat' colour scale using thresholds that best reflect each individual metric. Further detail on these scales is outlined in each of the chapters on investment returns, fees and costs and sustainability of member outcomes.

## 3.3 Viewing the Heatmap

The Heatmap has two views, a concise view and an expanded view. The concise view of the Heatmap shows ten key metrics that APRA considers particularly important for assessing member outcomes based on underlying analysis of the data. APRA will review these metrics

over time to ensure the most relevant and important measures of member outcomes are highlighted.

**Table 1. Concise view metrics**

Area	Concise View Metric
Investment return	7 year net investment return (NIR)
	7 year NIR relative to SAA benchmark portfolio
	5 year NIR
	5 year NIR relative to SAA benchmark portfolio
Fees and costs	Administration fees on a \$50,000 representative balance
	Administration fees on a \$100,000 representative balance
	Total fees on a \$50,000 representative balance
	Total fees on a \$100,000 representative balance
Sustainability of member outcomes	3 year average adjusted total accounts growth rate
	3 year average net cash flow ratio

The Heatmap in its expanded view shows 25 metrics that APRA uses to evaluate the outcomes of choice investment options based on data provided by SuperRatings. The expanded view provides stakeholders with broader insights into investment returns and the impact of fees for different member account balances, as well as the sustainability of RSE licensees.

**Table 2. Expanded view metrics**

Area	Expanded View Metrics
Investment Returns	3, 5 and 7 year net return (for \$50,000 representative balance)
	3, 5 and 7 year NIR
	3, 5 and 7 year NIR relative to the strategic asset allocation benchmark portfolio
	3, 5 and 7 year NIR relative to a simple reference portfolio
Fees and costs	Administration fees on all representative balances (\$10,000, \$25,000, \$50,000, \$100,000 and \$250,000)
	Total fees on all representative balances (\$10,000, \$25,000, \$50,000, \$100,000 and \$250,000)
Sustainability of member outcomes	3 year average adjusted total accounts growth rate
	3 year average net cash flow ratio

Area	Expanded View Metrics
	3 year average net rollover ratio

An interactive version of the Heatmap is hosted on the APRA website, which provides a user-friendly interface to view the performance of choice investment options, including filtering and sorting functionality.

### 3.4 Choice of growth asset allocation categories

The Heatmap displays information for a large number of products and investment options (120 products and 727 investment options). Choice products typically offer a range of multi-sector investment options with different risk profile with different allocations to growth asset classes.

To enable comparisons between different choice investment options of similar risk profile, APRA has categorised choice investment options into five “Strategic Growth Asset Allocation categories”: 0-40%, 40-60%, 60-75%, 75-90% and 90-100%. These categories have been chosen to ensure alignment with the approaches taken by superannuation research houses. There is a column in the Heatmap to allow users to filter to categories of interest.

### 3.5 Future development of the Heatmap

The Heatmap will be released annually. The next iteration will include the performance test result for trustee-directed products. For each iteration of the Heatmap APRA will:

- Review the data and scope of the Heatmap. APRA will transition the Heatmap to use data collected in its new collections and expand the coverage of the Heatmap to other parts of the choice sector;
- Review the metrics to ensure appropriate benchmarks and thresholds are being applied to appropriately reflect improvements across the industry;
- Establish which metrics should be displayed in the concise view to ensure that the key metrics at the time the Heatmap is released are highlighted; and
- Incorporate additional or alternative metrics and/or products and investment options to reflect subsequent improvements in collected data.

To assist in developing subsequent iterations of the Heatmap, APRA welcomes input and feedback from stakeholders on areas where the Heatmap can be improved, or additional metrics that could be incorporated to provide greater insights into the performance of RSE licensees and the outcomes they are delivering to their members.

# Chapter 4 - Data sources

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To allow for the publication of a Choice Heatmap in 2021, APRA engaged SuperRatings to provide data covering:

## Investment returns

- Net investment returns and net returns (3, 5 and 7 year rolling returns as at 30 June 2021)
- Historical strategic asset allocations (actual asset allocations provided in instances where strategic asset allocations were not available), on a quarterly basis up to 30 June 2021

## Fees and costs

- Administration fees disclosed as at 30 June 2021
- Investment fees and indirect cost ratios disclosed as at 30 June 2021, and
- Calculations for total fees and costs for choice investment options on all representative balances (\$10,000, \$25,000, \$50,000, \$100,000 and \$250,000) as at 30 June 2021.

Along with SuperRatings, APRA has taken several actions to ensure the quality and accuracy of data. In particular:

- APRA conducted a detailed due diligence process to select the most suitable external provider for data, which included assessment of vendor's data coverage, data management and validation processes.
- Internal quality assurance and validation processes have been carried out by SuperRatings around its data transformation and calculations. This included direct engagement with entities to confirm data used for investment returns and validating data against APRA's collections where possible and
- Independent checks on calculations have been performed by APRA.

## Sustainability of member outcomes

Sustainability metrics are calculated using data collected under reporting standards developed through Financial Sector (Collection of Data) Act 2001.

# Chapter 5 - Investment returns

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APRA has analysed a number of different investment metrics to assess returns on a risk-adjusted basis and to consider an RSE licensee's returns relative to peers. For the Heatmap, APRA has utilised the investment return metrics and methodology used in the MySuper Product Heatmap. Investment return metrics are presented at the investment option level.

The Heatmap measures investment returns over three, five and seven-year time horizons using data provided by SuperRatings, where this history exists. These time horizons have been selected to align with the MySuper Product Heatmap time horizons. APRA notes that the long-term investment return is a critical driver of outcomes for members, and that returns over different time periods provide insights into the sustainability and consistency of investment returns over time. As APRA builds its time series of investment returns, future releases of the Heatmap are expected to include longer time horizons (e.g. ten years).

## 5.1 Benchmark portfolio metrics

APRA has constructed benchmark portfolios as part of the analysis to provide risk-adjusted insights into the returns of each investment option. The Net Investment Return (NIR) of each investment option has been measured against a Simple Reference Portfolio (SRP) and a Strategic Asset Allocation (SAA) benchmark portfolio; both portfolios are option-specific and tailored to reflect the investment strategy and level of risk of the option.

Reference and benchmark portfolios are the primary measures APRA uses to evaluate the investment return of investment options. APRA considers these measures to be objective and to provide useful insights into an RSE licensee's ability to add value for its members. Where an RSE licensee's investment process utilises active management, makes tilts to its asset allocation or invests in illiquid or complex assets, it is expected to be able to demonstrate the value add (after fees, costs and taxes) from these activities over time.

Appendix A provides the formulas used to calculate the returns for the SRP and SAA benchmark portfolio. Appendix B provides detail on the indices used to construct the SRP and SAA benchmark portfolios.

### 5.1.1 Simple Reference Portfolio

The SRP is a notional, “a priori” portfolio of passive, low cost and liquid investments. The purpose of the SRP is to measure the value an RSE licensee has generated for its members through its value adding activities, such as its strategic asset allocation decisions. A bespoke SRP is created for each investment option to appropriately reflect its own risk profile.

The risk profile of each option has been established by applying a consistent definition of growth and defensive assets, as outlined in Table 4 below, to the asset allocation data. APRA considers this an appropriate basis on which to benchmark returns and the ability of an RSE licensee to develop and implement an effective investment strategy. It is important to note that the SRP is not intended to be an indicator of how an RSE licensee should invest; rather it provides a benchmark to assess returns that is suitable for the long time horizon of superannuation and is based on the product’s target risk-return expectations.

The SRP consists of a growth portfolio and a defensive portfolio utilising only equities, bonds and cash (Refer Table 3 below).

**Table 3. Growth and Defensive Portfolio (Asset breakdown)**

Growth Portfolio	%	Defensive Portfolio	%
Australian equity	50	Australian fixed interest	40
International equity (hedged)	25	International fixed interest	40
International equity (unhedged)	25	Australian Cash	20

A return is calculated for both the growth portfolio and the defensive portfolio by applying index returns (see Appendix B for details of indices used) for each asset class and the weightings in Table 3.

The returns on the growth and defensive portfolios are then combined to determine the benchmark return for each product using the specific growth / defensive asset allocation for each investment option.

**Table 4. Growth/Defensive Classification**

SAA Asset Class	Growth / Defensive classification
Equity, Listed Property, Listed Infrastructure	100% Growth
Unlisted Property, Unlisted Infrastructure	75% Growth, 25% Defensive
Commodities, Other	50% Growth, 50% Defensive
Fixed Interest, Cash	100% Defensive

The NIR for each investment option is then compared to the return on its bespoke SRP to determine the return of the investment option relative to the SRP over the period (i.e. whether it under/outperformed the benchmark).

### 5.1.2 SAA benchmark portfolio

The purpose of the SAA benchmark portfolio is to assess the value generated through an RSE licensee's implementation of its investment strategy. The SAA benchmark portfolio has been created using the reported SAA for each choice investment option. The benchmark portfolio assumes investment in listed passive benchmarks for each asset class, with the exception of additional unlisted benchmarks for unlisted property and infrastructure. The asset class benchmarks adopted match the indices used in the performance test.

### 5.1.3 Reference/benchmarking portfolio assumptions

To ensure an appropriate comparison can be made between the return of choice investment options to the reference and benchmark portfolios, APRA has incorporated adjustments in areas such as taxes and fees into the calculations of reference and benchmark portfolio returns. In particular:

- Each asset class benchmark has been adjusted to consider long term assumptions for actual and accrued tax, based on respective income and capital components. The Australian equity benchmark has also been adjusted to reflect franking credits. See Appendix B for the tax assumptions used in this analysis.
- Where available, APRA has selected global indices that are adjusted to reflect the withholding taxes applicable for an Australian institutional investor, to remove any potential understatement of index returns arising from the presence of double taxation treaties. APRA considers the use of these benchmarks to be good practice; particularly where there are wider implications such as the payment of performance-based fees and remuneration.
- Fee assumptions have been incorporated into the index returns to reflect the fees that would be payable by an institutional investor investing passively. Estimates were derived using relevant exchange traded funds (ETFs) as a reference point. See Appendix B for the fee assumptions used in this analysis.
- International equities are assumed to be 30% hedged when hedging ratio data is not available. This is consistent with the *Superannuation: Assessing Efficiency and Competitiveness, Inquiry report no. 91* by the Productivity Commission (dated December 2018).
- Fully hedged benchmarks have been used by APRA for international property, infrastructure and fixed interest, where industry practice is that hedging is close to 100%.

The returns on both the SRP and the SAA benchmark portfolio have been calculated using historical SAA supplied by SuperRatings. SuperRatings collects asset allocation data directly from RSE licensees through monthly surveys and from public sources such as Product Disclosure Statements (PDS') and investment guides. As RSE licensees adopt different

approaches to defining asset classes, SuperRatings' database contains a total of 43 asset classes.

APRA has therefore made assumptions on how asset classes captured in SuperRatings' dataset are mapped to the asset classes in Reporting Standard SRS 533.0 *Asset Allocation*.

- SuperRatings' asset classes are mapped to APRA asset class types where this can be identified. For example, SuperRatings' "Mortgage" and "Inflation Linked" asset classes are mapped to APRA asset class type "Fixed Interest". Details on exact asset class mappings have been provided in Appendix C.
- Where asset domicile for a particular asset class is not reported in the SuperRatings' data set, a benchmark of 50% Australian and 50% international has been used .
- All allocations to property (defensive) and infrastructure (defensive) are assumed to be 100% unlisted
- Where listing type is not known, allocations to Property (growth) and infrastructure (growth) are assumed to be 50% listed and 50% unlisted.

Where strategic asset allocation data is not available, actual asset allocations collected by SuperRatings through regular surveys have been used.

#### **5.1.4 Net investment return and net return metrics**

The comparison of returns across choice investment options should consider the investment objectives and level of risk for each option to enable a like-for-like assessment of returns. To reflect the varying risk profiles in the industry, the colours in the Heatmap indicate the return of each option relative to the returns of its peers based on its growth asset allocation.

To do this, APRA has taken the return of each investment option and plotted it against their average allocation to growth assets over the appropriate timeframe to inform a peer-derived trend line (see a sample NIR vs growth asset allocation chart below). The relative return of each option is measured based on the difference between its return and the appropriate reference point on the trend line. This provides a method of comparing the return of each choice investment option in the industry on a risk-adjusted basis.

**Table 5. NIR peer comparison on a risk-adjusted basis**



### 5.1.5 Net investment return and net return adjustments

SuperRatings sources investment return data directly from RSE licensees as well as through publicly available sources. Return data is not always published on a consistent basis across the industry.

SuperRatings’ investment return data reflects the investment option return based on unit price or crediting rates. SuperRatings’ investment return is calculated net of investment fees, tax and implicit administration fees<sup>11</sup>. However, this is different to net investment return data APRA collects through Reporting Form SRF 702.0 Investment Performance, where net investment returns are net of investment fees, costs and taxes only. To optimise comparability between investment options in this Heatmap, SuperRatings has undertaken adjustments to its investment returns (over 3, 5, and 7 rolling time periods) to calculate net investment returns for each investment option, consistent with APRA’s definition.

Where SuperRatings investment return data has deducted implicit administration fees (such as asset administration fees and product fees), SuperRatings has added back these fees to calculate an option’s net investment return (over 3, 5 and 7 years).

Net return (over 3, 5 and 7 years) is calculated by SuperRatings by deducting all administration fees (including fixed dollar administration fees, asset administration fees and product fees) for a \$50,000 representative member from the net investment return calculated by SuperRatings.

<sup>11</sup> Implicit administration fees are administration fees that are deducted from the unit price or crediting rate. Explicit fees (i.e. fees that are charged from member account rather than the unit price or crediting rate) such as fixed dollar administration fees, exit fees, contribution fees and switching fees are excluded.

Tax adjustments were also made to disclosed administration fees where required to allow for differing reporting practices across product disclosure statements.

Adjustments for each investment option in the Heatmap were determined by SuperRatings:

- based on SuperRatings knowledge of the RSE licensee's practices on reporting basis of investment returns, obtained through information collected in surveys and publicly available information;
- through back-testing MySuper investment return data held by SuperRatings with net investment return and net return data available in the MySuper Product Heatmap; and
- by seeking clarification from the trustee on net investment return and net return approaches being adopted, where differences between returns calculated by SuperRatings and published in the MySuper Product Heatmap fell outside tolerance.

### **Fees averaging for NIR and NR transformations**

In order to take into account the applicable fee over the assessed period (3, 5 and 7 years) SuperRatings took the total monthly fees, based on publicly available information, over the assessed period and divided the result by the length of the assessed period.

For example, in order to determine the fees over a 3 year period, total monthly fees were accumulated for 36 months and then divided by 3 years. This approach was taken for the following fee components: fixed dollar administration (\$), asset administration fee (%), product fee (%) and indirect cost ratio (%). Definitions for each of the fees used in adjusting SuperRatings investment return figures have been provided in Appendix D – Definitions.

## **5.2 Colour overlay**

The colour scale displayed in the Heatmap is based on the return of the investment option relative to different metrics. The method for colouring each metric is as follows:

- Net Return: Net Return relative to the appropriate reference point in the Net Return / growth asset allocation trend line
- NIR: NIR relative to the appropriate reference point in the NIR / growth asset allocation trend line
- SRP: NIR relative to the SRP
- SAA benchmark portfolio: NIR relative to the SAA benchmark portfolio

Colours are applied based on the level of relative return and in line with the colour scale below:



The highest concentration of colour is applied to the investment options that are delivering returns of more than 0.50% below the corresponding reference point. The colour overlay is consistent with the scale applied in the MySuper Product Heatmap published in December 2021.

## Chapter 6 - Fees and costs

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The Heatmap provides insights into choice product fees and costs structures and their impact on outcomes for members. APRA has analysed the administration fees, and total fees and costs disclosed to members with different representative account balances and expects that these metrics will provide suitable benchmarks to RSE licensees when assessing outcomes being delivered to members. Fees and costs metrics are presented in the Heatmap at the investment option level, although administration fees are generally the same for each investment option within the choice products in the Heatmap.

SuperRatings have calculated administration fees, and total fees and costs metrics for APRA based on data it collects through:

- publicly available disclosures such as PDSs; and
- surveys conducted by SuperRatings, in which RSE licensees provide information on fee structures

The fees disclosed by RSE licensees have been used in the Heatmap calculations and as such, are expected to be gross of tax. Where an RSE Licensee discloses both gross and net of tax fees, the gross of tax fees has been used in the Heatmap calculations to optimise comparability between products.

To allow for comparisons to MySuper products, and for the higher average account balance of choice members, the Heatmap shows fees and costs metrics for members with account balances of: \$10,000; \$25,000; \$50,000; \$100,000 and \$250,000 for each investment option.

Choice products have varying fees and costs structures which include tiering arrangements, fee caps, and rebates, which SuperRatings have accounted for in their calculations of the fee metrics. See Appendix A for further details on the fees and costs metrics and Appendix D for definitions on fees and costs components.

ASIC released its update to *Regulatory Guide 97: Disclosing fees and costs in PDSs*<sup>12</sup> and periodic statements on September 2020 which included transitional arrangements for RSE licensees. From 30 September 2020, RSE licensees may elect to comply with the updated PDS requirements, and by 30 September 2022 all RSE licensees are required to comply with these requirements. For products that have disclosed their fees and costs under new RG97 requirements, the Heatmap's 'administration fees' metrics uses 'administration fees and costs' disclosed in their PDS; and the Heatmap's 'total fees and costs' metrics uses the 'administration fees and costs' and 'investment fees and costs'.

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<sup>12</sup> [Regulatory Guide 97: Disclosing fees and costs in PDSs](#)

## 6.1 Colour overlay

The colour scale has been applied to the fees and costs for the representative account balances of \$10,000; \$25,000; \$50,000; \$100,000 and \$250,000 using statistical methods to define thresholds. The graduating colour scale for fees shows the relative positioning of a product's fees based on Median Absolute Deviations (MAD). MAD is used as the measure of variability, to reduce the impact of distortion of outlier values that impact measures such as standard deviation. The thresholds are different from the MySuper Product Heatmap.

**Table 6. Distributions across the representative member account balances**

Representative Member Account Balance	Colour Graduation for fees and costs
Administration fees disclosed (% of \$10,000 account balance)	 1.05%                      1.25%                      1.45%
Administration fees disclosed (% of \$25,000 account balance)	 0.60%                      0.75%                      0.90%
Administration fees disclosed (% of \$50,000 account balance)	 0.45%                      0.58%                      0.70%
Administration fees disclosed (% of \$100,000 account balance)	 0.35%                      0.50%                      0.65%
Administration fees disclosed (% of \$250,000 account balance)	 0.30%                      0.43%                      0.55%
Total fees and costs disclosed (% of \$10,000 account balance)	 1.80%                      2.13%                      2.45%
Total fees and costs disclosed (% of \$25,000 account balance)	 1.30%                      1.53%                      1.75%
Total fees and costs disclosed (% of \$50,000 account balance)	 1.15%                      1.35%                      1.55%

Representative Member Account Balance	Colour Graduation for fees and costs
Total fees and costs disclosed (% of \$100,000 account balance)	 <p>A horizontal bar with a color gradient from light yellow on the left to dark red on the right. A vertical line is positioned at the 1.45% mark.</p> <p>1.05%                      1.25%                      1.45%</p>
Total fees and costs disclosed (% of \$250,000 account balance)	 <p>A horizontal bar with a color gradient from light yellow on the left to dark red on the right. A vertical line is positioned at the 1.40% mark.</p> <p>1.00%                      1.20%                      1.40%</p>

# Chapter 7 - Sustainability of member outcomes

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Sustainability of member outcomes refers to an RSE licensee's ability to sustain its member outcomes into the future and address areas requiring improvement. The sustainability metrics, in themselves, are not a direct measure of outcomes, but instead are an indicator of an RSE licensee's likely ability to continue to deliver quality member outcomes into the future. The sustainability metrics are calculated at the RSE level.

For example, an RSE that is experiencing a significant loss of members leading to negative account growth may, as a consequence, see a decline in its fee revenue. As a result, the RSE licensee may have to take steps to address the loss of revenue that may impact the outcomes they are providing to its members, including changing the fee model, reducing the services provided to members, or increasing investment in technological capabilities.

## 7.1 Scale as a driver of sustainability

Scale of an RSE can influence an RSE licensee's ability to optimise investment outcomes through access to a range of asset classes, as well as its ability to spread fixed costs across a broader member base. Accordingly, APRA has used two representative scale measures (outlined below) to provide a baseline for considering how trend metrics may hinder the ability of an RSE licensee to continue to deliver quality member outcomes in the longer term.

- The **net assets available for members' benefits** includes defined contribution member balances in both the Accumulation and Pension phases, defined benefit entitlements and reserves.
- The **total number of member accounts**, as the number of member accounts will have a material impact on an RSE licensee's ability to spread its fixed costs, affecting its operating efficiency and the appropriateness (or otherwise) of its ongoing fee structure.

## 7.2 Rolling 3-year trend metrics

The Heatmap contains the following rolling 3-year trend metrics – Total Accounts Growth Rate, Net Cash Flow Ratio and Net Rollover Ratio. These three metrics provide insights into trends that are likely to impact sustainability of member outcomes, particularly when considering scale. The metrics are measured at the RSE level. As such, for funds that appear on both the Choice Heatmap and MySuper Product Heatmap, the metrics and colour thresholds are identical.

The trend metrics are presented on a 3-year rolling average basis to limit the impact of the data from a single abnormal year and the influence of past data, which may no longer have a bearing on the future direction of the RSE.

## 7.2.1 Adjusted Total Accounts Growth Rate

The Adjusted Total Accounts Growth Rate metric provides a measure of the member growth rate of an RSE over the preceding 3 years. The metric has been adjusted to remove the impact of one-off items, including account consolidations and successor fund transfers (SFTs), to provide a more reliable indicator of the underlying trend. Such items should be considered separately, in the context of the RSE licensee's strategic and business plans.

## 7.2.2 Net Cash Flow Ratio

The Net Cash Flow Ratio metric is a measure of an RSE's overall growth in member benefits, which is based on data relating to member and employer initiated transactions, such as Superannuation Guarantee (SG) contributions.<sup>13</sup> Using data relating to member and employer initiated transactions provides an understanding of how the total assets of an RSE are growing (or reducing) as a result of employers' and members' active decisions and engagement with the RSE.

## 7.2.3 Net Rollover Ratio

Rollovers represent amounts transferred between different RSEs (excluding SFTs). The Net Rollover Ratio metric provides a measure of net member benefit flows due to active decisions made by members to transfer into or out of the RSE. It is an indicator of the ability of the RSE to attract and retain members.

## 7.3 Colour overlay

A solid binary 'heat' colour is shown on the Heatmap for each of the sustainability trend metrics when an RSE licensee meets any of the combined threshold levels shown below. These threshold levels are established using both the current scale measure and accompanying trend. Refer to Tables 7, 8 and 9.

**Table 7. Net assets in billions (bn) - Net Cash Flow Ratio**

Net assets available for members' benefits	Net Cash Flow Ratio
> \$5bn	<-10%
\$2bn - \$5bn	<-7.5%
\$1bn - \$2bn	<-5%
<\$1bn	<0%

For example, an RSE with net assets of \$40bn with a Net Cash Flow Ratio of -16% on average over the last three years would receive an amber flag.

<sup>13</sup> The Net Cash Flow Ratio metric does not capture investment return or fees and costs, as they are already assessed under the investment return and fees and costs sections of the Heatmap.

**Table 8. Net assets - Net Rollover Ratio**

Net assets available for members' benefits	Net Rollover Ratio
> \$5bn	<-10%
\$2bn - \$5bn	<-7.5%
\$1bn - \$2bn	<-5%
<\$1bn	<0%

For example, an RSE with net assets of \$4bn with a Net Rollover Ratio of -8% on average over the last three years would receive an amber flag.

**Table 9. Total Member Accounts - Total Accounts Growth Rate**

Total Member Accounts	Adjusted Total Account Growth Rate
>20,000	<-10%
15,000 – 20,000	<-7.5%
10,000 – 15,000	<-5%
<10,000	<0%

For example, an RSE with 9,000 accounts with an average annual adjusted total account growth rate of -1% over the last three years would receive an amber flag.

Sustainability is measured at the RSE level. As such, for RSEs that appear on both the Choice Heatmap and MySuper Product Heatmap, the metrics and colour thresholds are identical.

# Appendix A - Heatmap metrics

Metric	Formula	Purpose
<b>Investment Return Metrics</b>		
Net return p.a.	Net return p.a. (over 3, 5 and 7 years) was provided by SuperRatings	Return of the investment option after all fees, costs and taxes have been deducted for a member with \$50,000 account balance
Net investment return p.a.	Net investment return p.a. (over 3, 5 and 7 years) was provided by SuperRatings	Return of the investment option after investment-related fees, costs and taxes have been deducted.
Net investment return relative to SRP p.a.	<p><i>Performance relative to simple reference portfolio</i>  <math>= n \text{ year NIR p.a.} - n \text{ year Simple Reference Portfolio return p.a.}</math>            where  <math>n \text{ year Simple Reference Portfolio return p.a.}</math></p> $= \left\{ \prod_{t=1}^{4n} [1 + (W_{G,t-1} \times R_{G,t}) + (W_{D,t-1} \times R_{D,t})] \right\}^{\frac{1}{n}} - 1$ <p><math>W_{G,t-1}</math> and <math>W_{D,t-1}</math> are the investment option's strategic allocation to growth and defensive assets at end of quarter t - 1 (or start of quarter t);  <math>R_{G,t}</math> and <math>R_{D,t}</math> is the quarterly index return of the growth and defensive portion of the SRP (adjusted for fees and taxes) to time t;            n is either 3 years, 5 years or 7 years</p> <p><i>The SRP assumes rebalancing on a quarterly basis.</i></p> <p><i>The return on the growth portfolio is calculated as:</i></p> $R_{G,t} = \sum_{l=1}^3 \left\{ \frac{(1 + Index_{l,t})}{(1 + Fee_l)^{0.25}} - 1 \right\} \times (1 - ETR_l) \times w_{G,l}$ <p><math>Index_{l,t}</math> is the quarterly return on the index chosen to reflect asset class l for quarter t;  <math>Fee_l</math> is the annualised fee assumed for asset class l;  <math>ETR_l</math> is the assumed effective tax rate for asset class l;  <math>w_{G,l}</math> is the weight to asset class l in the Growth portfolio. The asset classes in Growth portfolio are Australian equities, International equities (hedged) and International equities (unhedged).</p>	This metric creates a bespoke reference portfolio for the product based on its allocation to growth assets (based on a consistent definition). The reference portfolio is a notional, simple, low cost portfolio consisting only of equities, bonds and cash.

Metric	Formula	Purpose
	<p>The return on the defensive portfolio is calculated as:</p> $R_{D,t} = \sum_{l=1}^3 \left\{ \frac{(1 + Index_{l,t})}{(1 + Fee_l)^{0.25}} - 1 \right\} \times (1 - ETR_l) \times w_{D,l}$ <p>Index<sub>l,t</sub> is the quarterly return on the index chosen to reflect asset class l for quarter t;  Fee<sub>l</sub> is the annualised fee assumed for asset class l;  ETR<sub>l</sub> is the assumed effective tax rate for asset class l;  w<sub>D,l</sub> is the weight to asset class l in the Defensive portfolio. The asset classes in Defensive portfolio are Australian fixed interest, International fixed interest (hedged) and Cash.</p>	
Net Investment Return relative to SAA benchmark portfolio p.a.	<p>Performance relative to SAA benchmark portfolio  = n year NIR p.a. – n year SAA benchmark portfolio return p.a.</p> <p>where</p> <p>n year Listed SAA benchmark portfolio return p.a.</p> $= \left[ \prod_{t=1}^{4n} \left( 1 + \sum_{l=1}^A (SAA_{l,t-1} \times R_{l,t}) \right) \right]^{\frac{1}{n}} - 1$ <p>SAA<sub>l,t-1</sub> is the strategic asset allocation to asset class l at end of quarter t - 1 (or start of quarter t);  R<sub>l,t</sub> is the return on the index chosen to reflect asset class l for quarter t after adjustments for the impact of fees and taxes;  n is either 3 years, 5 years or 7 years;  A is equal to the total number of asset classes</p> $R_{l,t} = \left\{ \frac{(1 + Index_{l,t})}{(1 + Fee_l)^{0.25}} - 1 \right\} \times (1 - ETR_l)$ <p>Index<sub>l,t</sub> is the quarterly return on the index chosen to reflect asset class l for quarter t,  Fee<sub>l</sub> is the annualised fee assumed for asset class l,  ETR<sub>l</sub> is the assumed effective tax rate for asset class l</p>	This metric assesses the value added through an RSE licensee's implementation of the SAA relative to asset class benchmarks.
<b>Fee and Cost Metrics</b>		
Administration fees	$\text{Minimum} \left( 100 \times \frac{\$ \text{ admin fee}}{\text{account balance}} + \% \text{ admin fee}, \frac{\$ \text{ admin fee cap}}{\text{account balance}} \right)$	The forward-looking impact of administration fees a member can expect to be charged on their account balance.
Total fees and costs	Administration fee (% of account balance) + ICR (% of account balance) + Investment fee disclosed (% of account balance).	Provides a forward-looking lens on the total fees members can expect to be charged on their account balance.

Metric	Formula	Purpose
<b>Sustainability of Member Outcomes Metrics</b>		
Total accounts *	<p>3 year adjusted total account growth rate</p> $= \frac{1}{3} \sum_{t=1}^3 [(Total\ Accounts_t + Consolidated\ Accounts_t - SFT\ In_t + SFT\ Out_t) / Total\ Accounts_{t-1} - 1]$	Average inherent growth rate of total member accounts over last 3 years, adjusted for consolidations and SFTs.
Net Cash Flow Ratio*	$3\ year\ NCF\ ratio = \frac{1}{3} \sum_{t=1}^3 \left[ \begin{array}{l} + Member\ benefit\ flows\ in_t \\ + Insurance\ related\ inflows_t \\ - Insurance\ related\ outflows_t \\ - Member\ benefit\ flows\ out_t \end{array} \right] / Cashflow\ adjusted\ net\ assets_t$	Measure of an RSE's asset growth removing the impact of investment returns and fees and costs.
Net Rollover Ratio*	$3\ year\ Net\ Rollover\ Ratio = \frac{1}{3} \sum_{t=1}^3 \left[ (Rollovers\ in_t - Rollovers\ out_t) / Cashflow\ adjusted\ net\ assets_t \right]$	Measure of members' preference for an RSE and level of active decisions to roll money into or out of an RSE. This measure provides additional insights into the net cash flows of an RSE.

\* Where a 3-year average is not available, a 2-year or current year measure is substituted.

## Appendix B – Indices

The following indices<sup>14</sup> were used when creating the reference and benchmark portfolios:

Asset Class	Index	Fee Assumption	Assumed effective tax rate	Bloomberg Ticker
Australian Equity	S&P/ASX 300	0.05%	0.00%	ASA52
International Equity (hedged)	MSCI All Country World Ex-Australia Equities Index with Special Tax (100% hedged to AUD)	0.11%	14.00%	DE725341
International Equity (unhedged)	MSCI All Country World Ex-Australia Equities Index with Special Tax (unhedged in AUD)	0.09%	14.00%	DN714533
Australian Listed Property	S&P/ASX 300 A-REIT Index	0.12%	14.00%	ASA6PROP
International Listed Property	FTSE EPRA Nareit Developed ex Aus Rental 100% Hedged to AUD Net Tax (Super) Index	0.22%	14.00%	RAHRSAH
Australian Listed Infrastructure	FTSE Developed Core Infrastructure 100% Hedged to AUD Net Tax (Super) Index	0.26%	14.00%	FDCIISAH
International Listed Infrastructure	FTSE Developed Core Infrastructure 100% Hedged to AUD Net Tax (Super) Index	0.26%	14.00%	FDCIISAH
Australian Unlisted Property	MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index – NAV-Weighted Post-Fee Total Return (All Funds)	0.00%	14.00%	N/A
International Unlisted Property	MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index – NAV-Weighted Post-Fee Total Return (All Funds)	0.00%	14.00%	N/A
Australian Unlisted Infrastructure	MSCI Australia Quarterly Private Infrastructure Fund Index (Unfrozen) – NAV-Weighted Post-Fee Total Return (All Funds)	0.00%	14.00%	N/A

<sup>14</sup> Indices will be reviewed on a regular basis for appropriateness.

Asset Class	Index	Fee Assumption	Assumed effective tax rate	Bloomberg Ticker
International Unlisted Infrastructure	MSCI Australia Quarterly Private Infrastructure Fund Index (Unfrozen) – NAV-Weighted Post-Fee Total Return (All Funds)	0.00%	14.00%	N/A
Australian Fixed Interest	Bloomberg Ausbond Composite 0+ Index	0.10%	15.00%	BACM0
International Fixed Interest	Bloomberg Global Aggregate Index (hedged in AUD)	0.10%	15.00%	LEGATRAH
Australian Cash	Bloomberg Ausbond Bank Bill Index	0.04%	15.00%	BAUBIL
International Cash	Bloomberg Ausbond Bank Bill Index	0.04%	15.00%	BAUBIL
Other (assets categorised as Other / Commodities)	25% International Equity (hedged), 25% International Equity (unhedged), 50% International Fixed Interest	As per the underlying asset classes		

The benchmarks chosen are considered to be representative of the investable market for an Australian superannuation investor. Total return indices (that is, returns inclusive of dividends as well as capital gains) have been used.

## Index provider acknowledgements

**Source:** “Bloomberg®”, Bloomberg Ausbond Bank Bill Index, Bloomberg Ausbond Composite 0+ Index and Bloomberg Global Aggregate Index (hedged in AUD) are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited (“BISL”), the administrator of the index (collectively, “Bloomberg”) and have been licensed for use for certain purposes by APRA. Bloomberg is not affiliated with APRA and Bloomberg does not approve, endorse, review, or recommend APRA’s heatmaps. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to APRA’s heatmaps.

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## Appendix C – Asset allocation mappings

SuperRatings Asset Class	APRA Asset Class
Australian Shares (Growth)	100% Australian Equity
International Shares (Growth)	30% International Equity (hedged), 70% International Equity (unhedged)
Hedged International Shares (Growth)	100% International Equity (hedged)
Unhedged International Shares (Growth)	100% International Equity (unhedged)
Property (Growth)	25% Australian Listed Property, 50% Australian Unlisted Property, 25% International Listed Property
Listed Property (Growth)	50% Australian Listed Property, 50% International Listed Property
Australian Listed Property (Growth)	100% Australian Listed Property
International Listed Property (Growth)	100% International Listed Property
Unlisted Property (Growth)	50% Australian Unlisted Property, 50% International Unlisted Property
Australian Unlisted Property (Growth)	100% Australian Unlisted Property
International Unlisted Property (Growth)	100% International Unlisted Property
Alternatives (Growth)	100% Other
Hedge Funds (Growth)	100% Other
Australian Hedge Funds (Growth)	100% Other
International Hedge Funds (Growth)	100% Other
Infrastructure Funds (Growth)	25% Australian Listed Infrastructure, 25% International Listed Infrastructure, 25% Australian Unlisted Infrastructure, 25% International Unlisted Infrastructure
Australian Infrastructure Funds (Growth)	50% Australian Listed Infrastructure, 50% Australian Unlisted Infrastructure
International Infrastructure Funds (Growth)	50% International Listed Infrastructure, 50% International Unlisted Infrastructure
Private Equity (Growth)	50% Australian Equity, 15% International Equity (hedged), 35% International Equity (unhedged)
Australian Private Equity (Growth)	100% Australian Equity

SuperRatings Asset Class	APRA Asset Class
International Private Equity (Growth)	30% International Equity (hedged), 70% International Equity (unhedged)
Emerging Markets (Growth)	30% International Equity (hedged), 70% International Equity (unhedged)
Absolute Return (Growth)	100% Other
Misc Alternatives (Growth)	100% Other
Other Growth (Growth)	100% Other
Fixed Interest (Defensive)	50% Australian Fixed Interest, 50% International Fixed Interest
Diversified Fixed Interest (Defensive)	50% Australian Fixed Interest, 50% International Fixed Interest
Australian Diversified Fixed Interest (Defensive)	100% Australian Fixed Interest
International Diversified Fixed Interest (Defensive)	100% International Fixed Interest
Inflation Linked (Defensive)	50% Australian Fixed Interest, 50% International Fixed Interest
Australian Inflation Linked (Defensive)	100% Australian Fixed Interest
International Inflation Linked (Defensive)	100% International Fixed Interest
Mortgages (Defensive)	50% Australian Fixed Interest, 50% International Fixed Interest
Property (Defensive)	50% Australian Unlisted Property, 50% International Unlisted Property
Unlisted Property (Defensive)	50% Australian Unlisted Property, 50% International Unlisted Property
Australian Unlisted Property (Defensive)	100% Australian Unlisted Property
International Unlisted Property (Defensive)	100% International Unlisted Property
Alternatives (Defensive)	100% Other
Infrastructure (Defensive)	50% Australian Unlisted Property, 50% International Unlisted Property
Australian Infrastructure (Defensive)	100% Australian Unlisted Property
International Infrastructure (Defensive)	100% International Unlisted Property
Absolute Return (Defensive)	100% Other
Misc Alternatives (Defensive)	100% Other

SuperRatings Asset Class	APRA Asset Class
Cash (Defensive)	50% Australian Cash, 50% International Cash
Other Defensive (Defensive)	100% Other

## Appendix D – Definitions

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Term	Definition
Fixed dollar administration fee (\$)	Dollar value (\$) fee charged by the product for administering the product
Asset administration fee (%)	Percentage (%) of balance fee charged by the product for administering the product assets
Product fee	All other fees (%) including items such as but not limited to regulatory levies and trustee fees charged by the product for administering the product assets.
ICR	Represents the ratio of the total of the indirect costs for an investment option, to the total average net assets of the superannuation entity attributed to the investment option. Reference: cl. 104(1) of Schedule 10 to the Corporations Regulations.



APRA