

Topic 5: How do I benchmark my SMSF Performance?

Until recently it has been very hard for SMSF Trustees to benchmark their SMSF performance, because of the limitations with existing benchmarks for them.

This has all changed now, and *SMSF Benchmarks* is just one of a number of services available to trustees and their professional advisers to bridge this information-gap.

In this topic we outline what we (SMSF Benchmarks) believe is required for good benchmarking information for SMSFs.

1. Benchmark Portfolios specifically designed for SMSFs

The actual amount of SMSF assets invested in International shares is debatable. The best data comes from the ATO annual Statistical reports. The following Table is an excerpt from the June 2015 report, published in December 2016.

Table 16: Asset allocations, by fund phase (2015)

This table shows the proportion of assets held by accumulation and pension phase SMSFs, for each type of asset listed on the 2015 SMSF annual return.

These figures are estimates based on SMSF annual return form data.

Asset allocation in 2015, by phase	Accumulation phase	Pension phase
Asset allocation		
Listed trusts	3.2%	4.5%
Unlisted trusts	8.4%	9.4%
Insurance policy	0.0%	0.0%
Other managed investments	3.9%	5.3%
Cash and term deposits	23.9%	25.1%
Debt securities	0.6%	1.6%
Loans	0.5%	0.6%
Listed shares	21.1%	33.7%
Unlisted shares	1.2%	0.9%
Limited recourse borrowing arrangements	7.9%	1.3%
Non-residential real property	11.6%	9.7%
Residential real property	5.6%	2.8%
Collectables and personal use assets	0.1%	0.0%
Other assets	2.7%	2.6%
Overseas shares	0.6%	0.5%
Overseas non-residential real property	0.0%	0.0%
Overseas residential real property	0.1%	0.0%
Overseas managed investments	0.1%	0.1%
Other overseas assets	0.4%	0.4%
Total Australian and Overseas Assets (%)	100%	100%

This table indicates that the amount of SMSF assets in International shares is less than 1%. However, the ATO also list 'investment trusts' and 'other managed investments' separately.

One needs to use a 'look through' approach to work out a better estimate of the typical exposure SMSFs have to each asset class. One then needs to allow for different risk profiles of investors.

We have designed a series of 11 Benchmark Portfolios specifically for SMSFs, 9 of which are based on deciles of 'Growth assets', and 2 of which cater for SMSFs investing in direct property.

We have written a whitepaper on the *Design of SMSF Benchmark Portfolios*, available in our Knowledge Centre at www.smsfbenchmarks.com.au

While every SMSF invests differently, and these portfolios may not have exactly the same asset allocation as a particular SMSF, they serve as a reasonable starting point for better SMSF benchmarking information.

2. Peer-Peer Comparisons

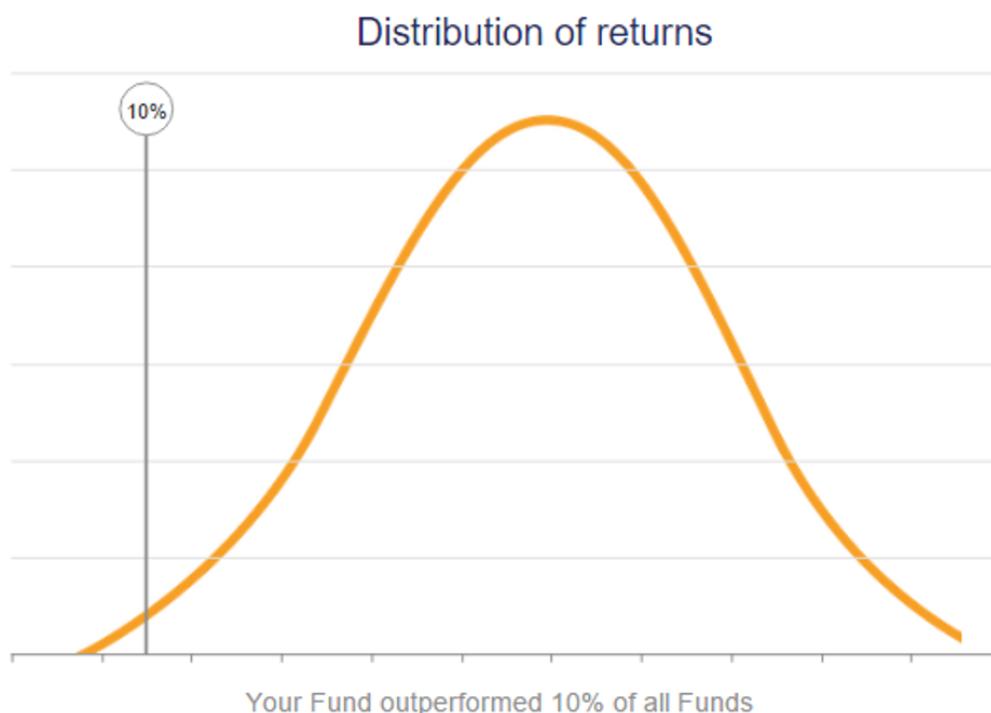
Some SMSF trustees may be curious to know how their fund has performed relative to all other SMSFs (subscribers) or compared to all other SMSFs investing in a similar way to them. There is an element of "gamification" in this. Some people are prepared to share some (de-identified) information about their investments, so they can learn from each other.

Trustees may also benefit from comparing the levels of risk they are taking with others in their age group.

Peer-Peer comparisons like this should increase the engagement of trustees over time, which can only lead to better outcomes.

My Performance

Fund performance vs All Funds



My Risk

vs Funds of same Age group ▾



Your Asset Allocation risk was higher than 79% of funds in your Age group

What's needed for fair Peer-Peer comparisons

1. Independent data

The head of Behavioural Finance Australia, Simon Russell BA(jur) BCom GDipApFin&Inv MApFin DFP GCertMgt says that SMSF Trustees often fail to get independent feedback about their fund performance.

- They may fail to get any feedback at all (benchmarking)
- Their adviser may put the performance in a certain light, so it looks better, as they have a vested interest in retaining business.

If you are going to compare your SMSF Performance against other SMSFs, you need to ensure that you are actually getting independent and unbiased feedback about your fund performance.

2. All returns calculated using a Time Weighted Return (TWR) method

If you are going to compare your total SMSF performance against other SMSFs, you have to make sure that every fund has had their investment return calculated in a consistent way, and the method used is the TWR method, which is the method least impacted by the timing and amounts of external cashflow items.

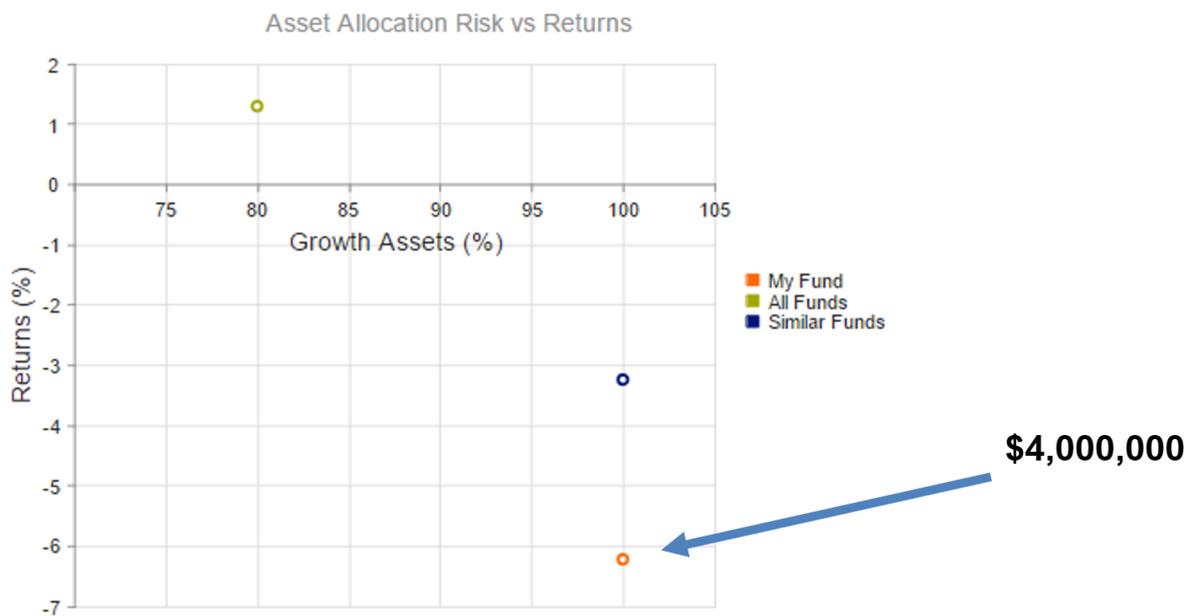
Occasionally you may come across statistics published about SMSF returns which have been based on a survey. In previous topics we covered how unlikely it is that all SMSF trustees responding to a

survey would know what their 'total fund' return has been, let alone which method was used to calculate their return, so the results are likely to be meaningless.

3. The ability to compare returns against other "similar" SMSFs

It may be interesting to see how your fund has performed against the median of all other SMSFs (subscribers). This can help you see how your return compared against the overall median, and also how much asset allocation risk you are taking compared to all others, others in your age group of others in the same phase as you.

But it may be more meaningful to compare your return against the median of all other SMSFs (subscribers) which have invested in a broadly similar way to you.



4. The ability to take into account changes in your asset allocation over time

If you wanted to benchmark (say) your 3 year investment return, but you have changed your asset allocation over that period, then to make sure you are comparing against an appropriate group of other "similar" investors, it is important to have benchmarking which is dynamic and can allow for how you actually invested over time.

It might also be interesting to discover how much of your out-performance or under-performance was due to your actual asset allocation varying from your target asset allocation, and how much was due to your investment decisions.

5. Timely Information

The ATO has the most comprehensive data on SMSFs. They publish an annual Statistical Report, but because they have to collate a lot of data from the annual accounts, it takes time. Their reports are published around 18 months following the end of each financial year.

If you were waiting that long to receive benchmarking information on which you would make decisions, that would not work.

A 'crowd-sourced' service where SMSF trustees can enter yearly valuations and transactions soon after the end of each financial year (or more frequently if desired) can give SMSF Trustees timely benchmarking information.

3. Customised Benchmarking specifically for your fund

It is now possible to customise a benchmark specifically for your fund. This depends on:

- whether or not you wanted to set a target asset allocation
- whether you changed your target asset allocation over time
- which sub-asset classes you used to create your target asset allocation and
- your actual asset allocation over time

This customised benchmarking is the "Holy Grail" of benchmarking. It gives powerful results, not based on peer-peer results, but on the returns of specific asset-classes. It is more complex, and labour intensive, so tends to be significantly more expensive.