

TRANSFORMING
SUPER



Industry
Super
Network

LESSONS OF RECENT HISTORY

By Garry Weaven

To some extent the GFC, rather than presenting new lessons, has provided us with dramatic confirmation of some inconvenient truths we have always known but are prone to forget.

Perhaps the chief amongst these is that double digit investment returns are not sustainable in a world of single digit economic growth. To believe otherwise ultimately implies a continuous shift in share of income from labour to capital and/or a continuous shift in share from regions or markets where we do not invest to those where we do. Ultimately it is far more likely that investment returns will return to long term averages bearing a reasonable relationship to real economic growth.

Interestingly, over the period 1996 to July 2009 returns from industry super funds on a whole of fund basis as measured by APRA (dominated by the balanced option) have averaged 4.6% p.a. almost identical to the ASX. The Retail Fund average was 2.8% p.a. Five year returns are slightly worse and unfortunately will become worse still unless we can achieve 12% p.a. + in the next couple of years as some of the very good years drop out of the 5 year numbers.

Impact of massive debt

A second reinforced lesson is that returns can be amplified by debt when real interest rates are low relative to expected returns; but the amplification also works in reverse. While at the macro level massive increases in debt can simultaneously boost short term growth and mask inequality but ultimately have to be paid for.

Chart 1 shows Australian households racking up well in excess of \$1 trillion in liabilities easily overshadowing the GDP in scale.

Note that the debt blowout has occurred in conjunction with a decline in wages share (See Chart 2).

At the national level our behaviour has been similar to that at the household level which means we must ultimately use more and more of our GDP to repay debt and/or pay higher interest rates.

Note incidentally that the time period of these debt charts roughly corresponds to the period of the Howard Government's term of office. I mention this simply because the Opposition when it is not busily denying climate change seems to be totally focused on opposing the Government's stimulus package with its attendant public debt (See Chart 3). In the interests of perspective here is the relative behaviour of public debt (See Chart 4).

The point being that if it is so egregious to run up public debt then how negligent were our policy settings over the previous decade to ignore the dramatically greater escalation in private debt and net national debt. Also note that nearly all of the debt growth was attributable to financial corporations (although it must be said that much of this reflects the banking sector accommodating borrowing for housing).

Conflicts of interest

One lesson that is somewhat unique to the GFC because of its scale and its relationship to modern global trends is that excessive financial intermediation masks real value and creates dangerously detrimental conflicts of interest.

Whether we are talking about the mortgage brokers at the basement level of the sub-prime crisis, the wholesale packagers of this debt, the dealer and advisory networks imbedded in the commission-driven distribution of super, the multiple levels of gearing embraced by various funds management products or the inscrutability of many hedge fund products: the large financial surpluses of recent years saw a massive growth in intermediation between borrowers and lenders, investors and investees.

Hopefully we have learned that for financial intermediation to facilitate value creation rather than destroy it, intelligent and forthright re-regulation is essential.

Notwithstanding the denials of extreme free market politicians (particularly it seems in the US and Australia) recent history has been a spectacular demonstration that macroeconomic stimulus by governments is a powerful counterbalance to contractionary forces and an essential element of social and economic policy.

Even allowing for unreliability of quarterly data Australia's economic performance has clearly responded to a combination of fiscal stimulus and interest rate cuts to the point where Australia is regarded as having "dodged the bullet" and even the US economy is showing signs of recovery well in advance of earlier predictions.

Indeed the policy interventions on a global scale have been so emphatic and broadly successful that there is a danger of not fully absorbing the core lesson that markets left to their own devices do not necessarily produce optimal outcomes in social, economic or environmental terms [but then, neither do governments].

Optimism for longer term

Because major geo-political disruption has so far been averted, the most important sea-change of the past decade seems likely to resume in earnest. That is the emergence of sustained economic growth in very high population but hitherto economically volatile nations such as China, India and Brazil. This is cause for considerable optimism as to the longer term economic outlook for Australia in particular, but it does not mean a linear upwardly mobile sharemarket. Already stockmarket volatility has underlined the reservations I expressed in my September 2009 paper to the Australian Super Investments Conference, namely that the credit crisis will continue to have knock-on effects.

By its nature a credit crisis means banks call the tune. The only tune they know is robust future revenue streams as a basis for continued credit. So quality and value in assets and companies will be paramount. Confidence about future net revenue streams also implies modest gearing levels.

De-leveraging means more asset sales so well-priced deal flow in private equity, infrastructure and property as well as some bargains in listed markets and credit assets should be attainable. To some degree asset class blindness may not be a bad thing. That is, it may be more important to access deals not generally available than simply to follow generic asset allocation strategies. I put this in the context that it is our objective to continually find new ways to outperform rather than simply trying to defend our historical outperformance.

And finally, if one looks through all the economic data both positive and negative one of the few constants on the other side of the GFC is the looming climate crisis. The science must ultimately prevail over vested interests and party politics. The carbon mafia will ultimately be seen for what it is – the modern day equivalent of the tobacco industry. The grandchildren of the senior executives and company directors who continue to poison the debate by using fear of change and fear of job security - those grandchildren will stop speaking to their grandfathers and then the world will suddenly be galvanised around carbon reduction with a few obvious consequences for a 10 year investment horizon.

* The bulk of this article is based on my paper presented to the Australian Super Investment Conference, September 2009.

Chart 1 - Household total liabilities/GPD

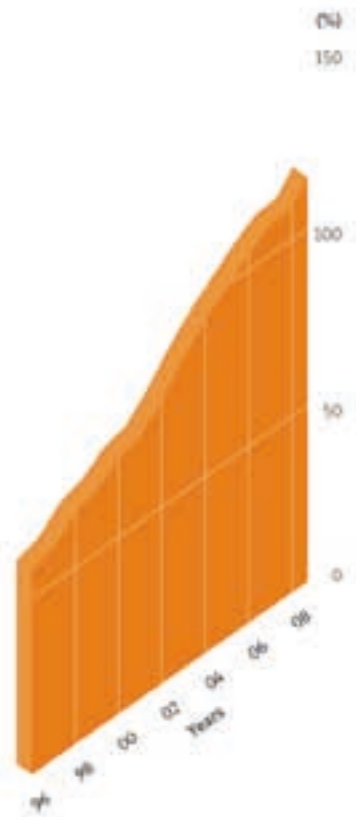


Chart 2 - Wages share of income

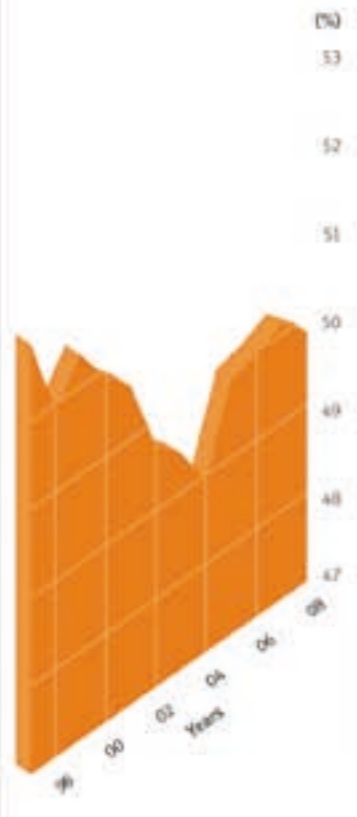


Chart 3 - Net Foreign Debt

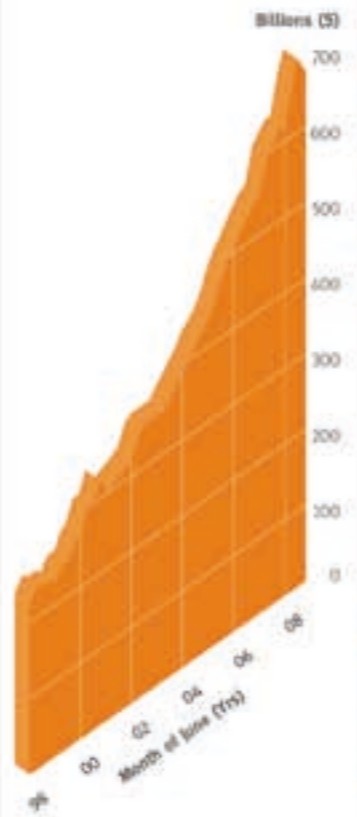
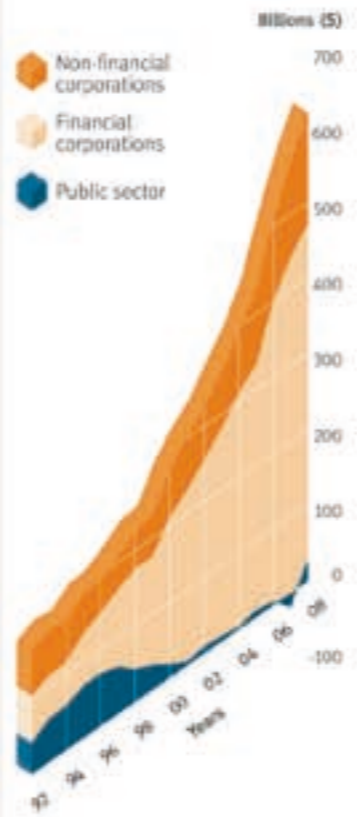


Chart 4 - Net Foreign Debt - By Sector



Garry Weaven, Chair, Industry Funds Management

WORKERS THE BASIS FOR SUPER CHANGE

By David Whiteley

2009 offered a dramatic backdrop to a super industry facing transformational change. The global financial crisis was the greatest stress test the super system could face, and it has come through it. Further, superannuation has acted as a stabiliser for the local economy and financial markets.

Throughout the financial crisis millions of members patiently (on average 95 per cent of industry super fund members) rode out the worst collapse in the equities markets since the Great Depression. This behaviour reflects trust in their fund and the system itself, but also broader inertia and disengagement.

It is near impossible to discern how many members deliberately stuck with their trustees' default fund strategy and what proportion failed to act through inertia. The sobering challenge for government, regulators and the super industry is how to transform Australia's conscripted wholesale and disengaged investors into engaged, patient, long term investors without them falling into the 'retail investor gap' and therefore ensure the system is sustainable through future shocks.

The solution lies in member confidence in the governance of the system and funds. This is why the Cooper and Henry reviews are so important. It is welcome that the government's stated intention is that the outcomes of the Henry and Cooper reviews will shape the super industry for a generation. This will require change and reform to be considered, thoughtful but also bold. Members must have unequivocal confidence that the regulatory system and governance of funds is working exclusively in their interests.

David Whiteley, Chief Executive, Industry Super Network



This will engender the necessary trust in a system that is designed for the long term to account for volatility through diversification and carefully constructed investment strategies.

Industry Super Network (ISN) qualitative research has shown that members are willing to ride out market fluctuations and even crises such as we have just experienced, assuming an underlying confidence in the way super 'works'.

To build confidence in the long term ISN continues to advocate for the creation of a 'Super safety net' that protects members that do not make decisions (deliberately or otherwise) while encouraging engaged members to ride out negative returns, conscious of the long term nature of super. This is one of the reasons why ISN has advocated for a 'Super safety net' comprising of:

- strong workplace defaults determined through Fair Work Australia processes;
- the capacity for funds to deliver simple and straightforward advice to their members on their holding in the fund; and
- a requirement for financial planners to act in the 'best interests' of their clients and a ban on conflicted forms of planner remuneration.

While 2009 has seen some policy developments that we believe will build engagement and confidence in the system, the real transformation over the past year has been the tenor of the national discussion about superannuation. Once again, the beneficiaries of the system – Australian workers – are perceived as being the reason the system exists, rather than just a remote client. This philosophy is not, of course, new to the industry super movement.

ISN remains committed to significantly progressing this agenda and looks forward to continuing to work with the funds and key stakeholders, such as the Australian Council of Trade Unions (ACTU) and the Australian Industry Group (Ai Group), during 2010.

TRANSFORMING SUPER

2009 will be remembered as a year marked by monumental leaps forward with progress, in a number of areas that benefit Australian workers and retirees. Over the next ten pages we will examine the transformation of super as it unfolded during the year.

This is the result of 25 years of lobbying by the industry super fund movement for a ban on commissions and an intensive campaign by Industry Super Network and industry super funds over the last three years.

ISN has been at the forefront of the ongoing debate about the role that financial planning should play in superannuation and has advocated a range of reforms including the introduction of a best interests obligation for financial planners and a ban on commissions.

ISN Chief Executive, David Whiteley, said the creation of league tables by the Australian Prudential and Regulatory Authority (APRA) and the Australian Securities and Investment Commission (ASIC) decision on intra fund advice were among the most significant milestones for 2009.

He said ASIC's recommendation to the Storm inquiry to ban commissions and require financial planners to act in the best interests of consumers was an important contribution to the debate.

Stakeholder funds have also achieved major success in 2009.

AustralianSuper achieved a stunning result with its landmark insurance deal to both reduce the cost and expand its default insurance.

HESTA's after tax revolution may save its members millions of dollars in fees and sets a benchmark for the sector.

HSTPLUS leads with its online advice due to come on stream.

Cbus shows the way with the development of its end-to-end member advice strategy.

And Frontier is examining the whole remuneration system for fund managers in an important bid to bring down costs.

RESULTS

- ✓ APRA league tables (See page 11)
- ✓ Intra fund advice (See page 8)
- ✓ AustralianSuper insurance deal (See page 13)
- ✓ HESTA after-tax revolution (See page 14)
- ✓ HSTPLUS online education (See page 13)
- ✓ Frontier fund manager remuneration proposal (See page 15)

MAJOR PROGRESS

- Banning commissions and percentage based fees (See page 6)
- Removing conflicts of interest (See page 6)
- Legislating for financial advice in best interest of consumers (See page 6)
- Equitable superannuation taxation concessions (See page 10)
- A focus on equity and efficiency in the adequacy debate (See page 9)

TRANSFORMING FINANCIAL ADVICE

Financial advice can play an important role helping Australians achieve financial security in their retirement. However the current system is calibrated around sales not impartial advice. Industry Super Network (ISN) has strongly advocated for super funds to provide advice to their members on their holding in the fund and for all financial advice to be in the best interests of their clients. This report charts progress in 2009.

STOP PRESS

89% of respondents would be concerned that their adviser was not acting in their best interests if they knew their adviser was receiving commissions.

A national Newspoll survey released in February 2010 reveals that changes to the regulation of financial planning – specifically banning commissions and the introduction of fiduciary obligation for planners to act in the best interests of their client – would strengthen and grow the industry.

85% of respondents believe a law should be put in place requiring financial advisers to act only in the best interests of their clients.

79% of respondents believe that commissions compromise financial advice.

56% of respondents would be more likely to seek financial advice if advisers were required by law to act in the best interests of their clients.

82% of respondents believe that financial planners should be paid on a fee for service (rather than commission) basis to avoid conflicts of interest.

75% of respondents believe the government should regulate the financial planning industry by law.

February

Parliamentary inquiry

The Federal Government announces a parliamentary inquiry to examine collapse of various financial planning businesses including Storm Financial with focus on commissions and rebates paid to financial advisers and whether in some cases they constitute conflicts of interest.

Value of advice

The Rice Warner Actuaries 'Value of Advice' report, commissioned by ISN, finds that Australians who pay for their financial advice by commissions could be paying as much as 13 times too much.

The report compared the net value of advice provided by Industry Fund Financial Planning (IFFP) and advisers remunerated by sales commissions. The report revealed that consumers are substantially better off paying for their advice on a 'fee for service' basis rather than paying ongoing commissions.

March

Practice questioned

A practice known as 'flipping', in which up to a million Australian workers a year are automatically moved from corporate funds into personal super accounts when they resign or are retrenched, is revealed. The practice is most common among funds owned by big banks and insurance companies. Analysis showed that losses due to switching range from 4.7 per cent to 22.3 per cent depending on the fund. Minister Sherry, then Minister for Superannuation and Corporate Law, called the practice "unfair... unconscionable and outrageous" and referred the matter to the super regulator for advice.

April

Consumers want reform of financial advice

A national Newspoll survey, commissioned by ISN, reveals that more than 70% of Australians believe that an inquiry into superannuation fees should be an urgent priority for the Federal Government, that nearly eight of 10 Australian adults (79%) think that the sales commission system compromises financial advice and that more than eight out of 10 Australians (83%) believe there should be a law requiring financial advisers to provide advice only in their clients' best interests.

May

FPA Code of conduct

The Financial Planning Association (FPA) releases a draft code of conduct which acknowledges that conflicts of interest in the commission system should be addressed.

Cooper Review announced

The Federal Government announces that there would be a strong focus on fees, commissions and conflicts of interest in the upcoming review into superannuation. Jeremy Cooper, the deputy chair of ASIC is appointed to head the review panel.

June

IFSA charter

The Investment and Financial Services Association (IFSA) releases a draft charter that acknowledges that commissions can create inappropriate conflicts of interest.

July

US and UK regulators back best interests

In the wake of the GFC there was a global push for reform of much of the financial services industries and in particular the role of intermediaries. The UK and USA moved to enshrine the overriding principle that financial advice should be in the best interest of the consumer. Both countries had experienced mis-selling caused by conflicted remuneration structures, typically sales commissions.

In the US the Obama administration sought to introduce a requirement that all types of financial advisers have a fiduciary obligation to their clients, and a ban of conflicted forms of remuneration. The UK's Financial Services Authority (FSA) prepared to ban sales commissions on investment products.

Intra fund advice

ASIC paves the way for super funds to offer simple personal advice on the government's co-contributions scheme, investment choice and the suitability of life insurance cover through the release of RG200. See page 8.

August

ASIC backs best interest and ban on commissions

In a landmark move ASIC recommends to the joint Parliamentary Storm inquiry that commissions should be banned and financial planners required to act in the best interests of consumers.

League tables introduced

APRA publicly releases the first superannuation performance tables. The first official fund level performance data showed an average difference in performance between industry super funds and retail funds over the long term of 2.7%. ISN has long advocated the official publication of such tables. See story page 11.

September

Flipping

ISN renews its call for a ban on the practice of flipping following receipt of independent research from SuperRatings that showed an increase in fees as high as 70% when workers are flipped from a corporate to personal fund. APRA finds that 100,000 retail members were worse off because of flipping.

November

Open letter

A full page open letter is published in the Australian newspaper – shortly before release of the Storm inquiry report. The letter from the industry super movement lead by ISN, the consumer group CHOICE, the Australian Institute of Superannuation Trustees (AIST), welfare group Australian Council of Social Service (ACOSS) and the Australian Council of Trade Unions (ACTU) calls for genuine reform of the financial advice industry. See page 7.

Minister Bowen

Superannuation Minister, Chris Bowen expresses strong concern about commissions and conflicts and the need for a high quality financial advice industry.

"Any regulatory changes to the industry will be guided by two overriding principles:

Firstly, the financial advice that people get must be in their best interests – distortions to remuneration, which misalign the best interests of the client and the adviser, should be minimised; and

Secondly, in minimising these distortions, we need to ensure that we don't put financial advice out of reach of those who would benefit from it."

Financial Planning Association national conference, November 2009

Storm report

The Ripoll Inquiry is clear about the conflicts created by existing remuneration arrangements and strongly recommends the need to introduce a fiduciary obligation. See story on page 7.

Super code 'won't halt commissions gravy train'
The Australian 18/11/09

'Ban commissions for financial advice'
The Australian 18/11/09

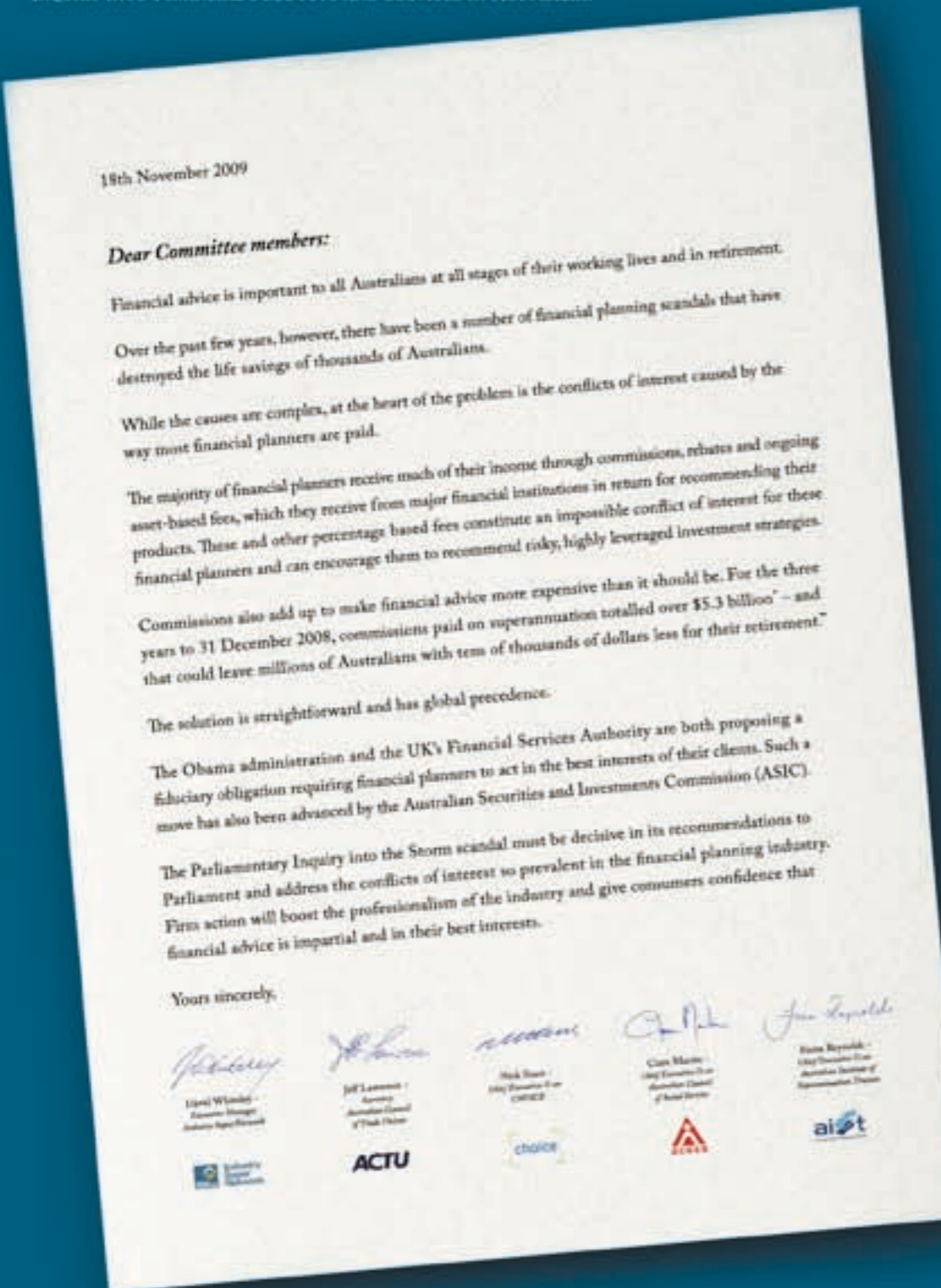
Fund flipping may get the flick in super review
The Age 20/07/09

79% BELIEVE COMMISSION SYSTEM COMPROMISES FINANCIAL ADVICE

85% WANT 'BEST INTERESTS' ADVICE

Australians deserve a financial planning industry that acts in their best interests.

An open letter to members of the
PARLIAMENTARY JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES
 INQUIRY INTO FINANCIAL PRODUCTS AND SERVICES IN AUSTRALIA.



Best interest

An historic coalition of peak bodies representing millions of Australians launched a national advertising campaign in November to highlight the urgent need for regulatory reform to require financial planners to act in their clients' best interests, and to abolish the discredited commission based remuneration system for financial planners.

In a full page open letter to The Australian newspaper addressed to members of the Parliamentary Joint Committee on Corporations and Financial Services, industry super funds, the consumer group CHOICE, the Australian Institute of Superannuation Trustees (AIST), welfare group Australian Council of Social Service (ACOSS) and the Australian Council of Trade Unions (ACTU) called for genuine reform of the financial advice industry.

The Parliamentary Joint Committee was investigating the collapse of Storm Financial.

Industry Super Network (ISN) Executive Manager, David Whiteley, said there was a groundswell of support within the Australian community to require financial planners to act in their client's best interest and to sweep away the conflicts of interest that are prevalent in the financial planning industry.

Welcoming the inquiry's report a week later Mr Whiteley urged the Government to play a strong leadership role in addressing conflicted remuneration and spell out legislation that remuneration must be consistent with fiduciary obligation.

SIMPLE SUPER ADVICE

Industry Super Network (ISN) has long advocated that it is critical for industry super funds to expand simple financial advice services for members, and that there was significant scope to do so within the existing regulatory provisions.

The July 2009 release by the Australian Securities and Investment Commission (ASIC) of Regulatory Guide RG200 'Advice to Super Fund Members' and a Class Order Relief significantly facilitates the offering of simple super advice to existing super fund members.

The regulatory guidance and class order relief provide funds with the confidence necessary to develop high quality, innovative and efficient superannuation related financial advice services to their members.

ASIC's guidance notes provide a concrete demonstration of delivering factual information, general advice and simple personal advice on investment choice, contributions and insurance within the fund.

According to the Australian Prudential and Regulatory Authority (APRA) figures the average Australian has a super accumulation of approximately \$30,000 and is likely to have only two major assets; their residential home and their superannuation account. These changes continue the existing regulatory safeguards whilst allowing the basic advice needs of average working Australians to be met.

Now super funds can give you advice but financial planners cry foul
 The Age 10/07/09

Robbie Campo, Manager – Strategy at ISN, has spent the last couple of years arguing that super funds should be able to provide simple low cost advice to their members on super related topics.

She maintained that the super and financial planning industries had adopted an unnecessarily conservative approach to providing simple financial advice.

The issue of super related advice was subsequently referred to the Financial Services Working Group (FSWG) which resulted in the publication of further regulatory guidance and class order relief by ASIC to facilitate the provision of super related personal advice by super funds to their existing members.

Ms Campo participated closely in the consultation process on superannuation related advice undertaken by ASIC and the Financial Working Group Advisory Panel.

"The advice needs of most super fund members are generally straightforward and during the accumulation phase are limited to one-off super related issues such as investment choice, insurance and contribution levels," she said.

Ms Campo says the revolution in financial advice can be scaled to the needs of fund members, who expect use of technology to deliver advice including the web. "The importance to millions of super members of the guidance and class order relief released by ASIC cannot be under-estimated," she said.



Robbie Campo, Manager – Strategy, Industry Super Network

THE YEAR OF THE HENRY REVIEW

Improving efficiency and equity in the retirement income system was the central theme of the joint submission to the Henry Review by Industry Super Network (ISN) and Australian Institute of Superannuation Trustees (AIST) in February.

The submission, informed by detailed modelling by Access Economics, made the case that inefficiencies and significant equity in the system should be addressed before extending compulsory super to 12%.

Key recommendations:

- The need for a government definition of 'adequate retirement income' that examined personal budget needs for people on modest and comfortable incomes
- An increase in the base rate of the age pension

- Increase contributions to 12%
- Banning commission-based selling of retirement savings and annuities products
- Government to offer lifetime annuities
- \$1500 baby bonus superannuation contributions
- Review of the \$450 monthly income threshold for super contributions

1.6 MILLION LOW AND MIDDLE INCOME AUSTRALIANS BENEFIT

Super tax breaks for low-paid
The Australian 14/10/09

Simpler and fairer concessions

A supplementary paper to the review in September proposed a ground-breaking method to deliver concessions by sweeping away up to seven different contribution concession arrangements into one simple Government co-contribution.

The co-contribution would be paid as a fixed percentage on both employer SG and voluntary employee contributions (either 25% or 33.3%).

It would replace salary sacrifice, super tax deduction, spouse super tax offset, and the existing low-income co-contribution.

Under this proposal up to 1.6 million low and middle income Australians would gain concessions on Superannuation Guarantee contributions for the first time.

Many low income earners are penalised on super contributions because the 15% contributions tax is greater than their own personal tax rate.

For more information visit www.industrysuper.com.

Super tax skewed too much to high earners
Sydney Morning Herald 14/10/09

COOPER REVIEW

\$13m a day lost to retail super funds, say rivals
Sydney Morning Herald 14/12/09

The foundation of the case for better regulation is to remove conflicts of interest inherent in the commission system and to provide default settings to address the market failure created by limited demand-side competition.

The current regulatory system allows major institutions to take advantage of consumers' superannuation inertia. Industry Super Network (ISN) said in its submission to Phase two of the Cooper Review.

Research by ISN economists estimated that the commission system is costing aggregate savings of \$13 million per day, including:

- \$8.2 million a day in lost investment income from retail sector under-performance in the past 13 years; and
- \$4.8 million in commissions currently paid to financial planners each day by retail super funds.

ISN does not accept that commissions are a legitimate or acceptable cost to individual investors or to the system. 'Inertia costs' create an indefensible drag on the system as a whole and on individual retirement savings.

Given widespread acceptance that sales commissions paid to financial planners are incentives to pay particular products, and not a convenient method for investors to pay for financial advice, ISN considers it uncontroversial to treat commissions as a needless cost of distribution that erode the savings of millions of working Australians.

Based on the evidence it is clear that:

- commissions must be eliminated or minimised to improve the efficiency of the superannuation system; and
- inertia amongst consumers must be recognised and addressed within the regulatory system.

Super Safety Net

The core of the ISN submission to the Cooper Review was establishment of a *Superannuation Safety Net* to eliminate or minimise commissions making an enormous difference to the efficiency of the current SG system.

The *Superannuation Safety Net* will:

- address market failure
- boost consumer confidence; and
- provide the Government with the confidence to build superannuation as the principal form of long term savings for working Australians.

Basis for the Net

The proposal to introduce a *Superannuation Safety Net* is based on the following:

- Superannuation is a creature of regulation and therefore regulatory change can have a substantial beneficial or deleterious effect on individual savings and aggregate national savings.

A Superannuation Safety Net would comprise:

- a recognition that SG Act contributions have the character of deferred wages and the consequent appropriateness of default funds being named within industrial awards maintained by Fair Work Australia;
- a requirement that financial advisers act in the best interests of their clients;
- the capacity for super funds to provide low cost intra-fund financial advice to their members which is in their 'best interests'; and
- a practical and equitable solution to lost super/inactive accounts.



Matthew Linden, Senior Policy Adviser, Industry Super Network, is a member of the ISN team working on the Cooper Review

- The majority of consumers are passive and disengaged in their superannuation, for example, nine in ten workers do not choose their own super fund and members excessively discount their future needs.
- The lack of consumer sovereignty has led to market failure that in the short to medium term can only be addressed through changing the regulatory settings.
- The regulatory framework can act as a proxy for consumer driven demand through simulating the behaviour of rational, informed and engaged consumers.
- The regulatory settings must ensure that the key driver of fund selection, whether for an individual or a workplace, is net performance, consistent with maximising final payouts for both engaged and disengaged consumers.
- Competition for informed consumers should be based on brand, performance, cost and/or other features typical of consumer markets.
- It is acknowledged disclosure is insufficient protection for consumers that are disengaged and tend to discount the future.

\$13 MILLION LOST PER DAY

LEAGUE TABLES

Industry SuperFunds – In a League of their own

The Industry Super Network (ISN) has been advocating the introduction of superannuation performance tables for some time and last year welcomed the decision by the Australian Prudential Regulatory Authority (APRA) that it would publicly release fund level performance data.

ISN Senior Economist Dr Sacha Vidler said that the APRA performance data publication is an important and highly regarded information source for industry, consumers and regulators.

"League tables will significantly improve transparency and accountability, stimulating competition and ultimately resulting in better outcomes for super fund members," he said.

The first official fund level performance data publication demonstrate an average difference in performance between industry super funds and retail funds over the long term of 2.7%. Of the 100 largest funds (by assets) for which five year returns are available (2004 - 2008):

- There are no retail funds in the 40 top performing funds.
- 47 of the 50 top performing funds over 5 years are not-for-profit funds.
- Out of 44 retail funds in the 100 largest funds, 41 are in the bottom 50.
- Almost 9 in 10 industry funds are in the top half of the rankings.

Clarity and transparency

Dr Vidler said official, unbiased performance data is an important step to achieving the goal of greater transparency by providing clarity about long term performance for those customers exercising their right to choose their fund as well as the industry itself.

Big names lose super showdown

Sydney Morning Herald 21/08/09

"Both consumers and the industry need league tables that are supplied by an independent, regulatory body with no vested interest in the results or the timing of their release."

Dr Vidler said that retail funds that pay commissions dominate the bottom of the league table.

"The industry super sector - that does not pay commissions - has the better performing funds."

Opposition to this data

Industry bodies representing the retail fund sector opposed the publication of this data, and have since attempted to discredit it.

Dr Vidler said they have a strong motive to do so, as many of their members appear in the bottom half of the list.

IFSA has called for the publication of official investment option performance data.

However, research from APRA shows that investment option performance is less consistent than fund level performance and therefore less useful to consumers. Also, underperformance will be less apparent in a publication covering the thousands of investment options available to members.

RISING NUMBERS SWITCH TO INDUSTRY SUPER

Industry SuperFunds continue to report growth in membership as increasing numbers of workers switch to industry super funds.

A recent report from Roy Morgan Research Superannuation & Wealth Management in Australia¹ showed an increase of 8.3% of people switching their funds over to an industry super fund in the 12 months to June 2009.²

The research also reported high levels of satisfaction with industry super funds amongst consumers.

"These figures show that the message that Industry SuperFunds are run only to benefit members, have low fees and don't pay commissions to financial planners, is resonating with the public."

CareSuper CEO, Julie Lander

The Roy Morgan research also found that:

- most financial planners ignore the best interests of consumers and switch people to high fee, high commission super funds;
- retail funds are increasingly reliant upon these activities for their growth;
- the major source of advice for those switching to the retail funds were financial planners/advisers and accountants; and
- those recommending retail super funds were doing so due to the conflicted remuneration system involving fees and commissions to those providing advice.

"With industry funds constantly on the top of the performance and satisfaction tables it would appear that the professionals not recommending them probably involves the vexed questions of fees and commissions."

Executive Summary p 5.

Industry super growing regardless

Despite finding that industry super funds obtain "almost no support" from financial planners, the industry super fund movement continues to grow.

As their remuneration is less the report concluded that most low income and low account balance super fund members don't get advice from financial planners/advisers.

The report found that "... financial planners probably don't consider it worthwhile to offer advice or market to the lower value group which means on many occasions they are "falling through the cracks."³

The Australian Securities and Investments Commission (ASIC) reported that during the same period of the Roy Morgan research approximately 215,000 clients abandoned financial planners, according to ASIC due to "... poor performance of their investments and perceived lack of quality advice."⁴

These developments highlight the importance of intra fund (or within super) simple super advice which is being developed by Industry SuperFunds.

1 Roy Morgan Research: Superannuation & Wealth Management in Australia – An analysis of consumer behaviour, advice and fund performance, October 2009.
2 Ibid page 29.
3 Ibid page 39.
4 ASIC Annual Report 2008-2009, page 23.

Workers better off in industry super fund

Coffs Coast Advocate 16/07/09

8.3%

INCREASE IN SWITCH TO INDUSTRY SUPER

2.7% BETTER OVER FIVE YEARS

RATES OF RETURN
100 largest Not-for-Profit and For-Profit Super Funds, 2004–2008



Dr Sacha Vidler, Senior Economist, Industry Super Network

FUNDS TRANSFORMING SUPER

Historic insurance deal for AustralianSuper

AustralianSuper announced new insurance arrangements in September for death, disablement and income protection for its 1.4 million members.

The three year deal, the largest in Australia this year, will have an annual premium of over \$200 million, and sees significant increases in the level of cover for all insured members and a number of market-leading changes.

Increased, expanded cover

The new arrangements include, for the first time, income protection as part of the default arrangement.

Based on a like for like comparison, the new deal will save over \$48 million a year in premiums for members. For most members these savings have been directed into significantly increased levels of cover to help address the issue of underinsurance.

AustralianSuper Chief Executive, Mr. Ian Silk, said "This is an enormous win for our members. We have been able to really harness the benefit of our size and achieve a result that will mean substantially better benefits for members."

The new arrangements will be introduced early in 2010 and will give members an increase from 8% to 31% in the amount of death and disablement cover for the same cost, and automatic income protection cover.

Overcoming chronic underinsurance

"For some time we have been aware of the chronic level of personal underinsurance in Australia. These new arrangements will help our members ensure they have enough insurance," Mr Silk said.

"This deal will also help protect our members' ability to fund their retirement benefits in the event they are injured or incapacitated."

\$48
MILLION
SAVING IN
PREMIUMS

Super advice just a click away

HOSTPLUS members will soon be able to access limited advice about their super online.

This industry leading initiative will help members understand and consider the issues they face in deciding to boost their superannuation contributions, make an investment choice, and obtain appropriate insurance through the fund.

HOSTPLUS Chief Executive Officer David Elia is excited about the opportunities this innovation can provide for members.

"Like many industry funds we're passionate about helping our members achieve the best possible financial outcomes in retirement. For many members achieving this will only come with education and advice. We also know that for many people seeking out advice can be daunting, difficult to access and unaffordable."

Advice on top three issues

"That's why we're developing a web based intra-fund advice tool. Our members will be able to get advice to help them set up perhaps the three most significant elements of their super fund membership. And they can drive the experience themselves with confidence and convenience."

The online advice tool will complement a much heralded education and financial literacy program which has seen HOSTPLUS partner with high profile financial educator Scott Pape.

"Scott's high profile has definitely helped spark an interest in super, and finances generally, amongst our membership. Obviously a good next step for these members is to use a tool like our online adviser and put plans in place to really make the most of their super", said Mr Elia.

HESTA starts after-tax revolution

HESTA expects to add tens of millions of dollars to the value of its Australian share portfolio by revolutionising the way its fund managers work.

HESTA is the first super fund to measure and remunerate fund managers on their after-tax investment returns, making them accountable for the tax implications of their decisions.

Fund managers are traditionally measured on pre-tax returns, leading them to not value franking credits that are attached to dividends and to ignore timing decisions that would protect discounted capital gains. With super taxed at 15% and the franking credits worth 30%, the pre-tax approach to valuing company dividends is costing investors millions.

Experts including ASIC have long argued that fund managers should be judged on their after-tax results but fund managers claimed it was not fair or accurate.

HESTA has overcome the obstacles with the assistance of Warakirri Asset Management who developed the rules and processes that enable post tax performance to be appropriately measured.

The right way

HESTA Executive Manager – Investments and Governance, Rob Fowler said HESTA is working with innovative fund managers who are willing to do things the right way instead of the easy way.

HESTA has asked all 16 of its fund managers to adopt the new methodology. Half began on 1 July, with the rest expected to phase in the new system in preparation for a July 2010 changeover.

The move will encourage fund managers to adopt lower turnover strategies, appropriately value franking credits and more actively participate in share buybacks.

"For members invested in Australian shares through their super fund, that means more money in the pocket in retirement," Mr Fowler said.

Cbus policy move

Cbus has appointed former Federal and State Government strategist Chris Altis as Executive Manager Policy and Government. This newly created role within the fund flags a further boost to Cbus' involvement in superannuation policy development.

"By building our internal policy capabilities, we can provide enhanced support for the policy activities undertaken by our external peak bodies, as well as engage directly with Government on issues of specific importance to Cbus members," said Cbus CEO David Atkin.

Chris will work closely with Industry Super Network (ISN) and other peak bodies like Australian Institute of Superannuation Trustees (AIST), Industry Funds Forum (IFF) and Association of Superannuation Funds Australia (ASFA).

Chris joins Cbus from the office of Federal Health Minister Nicola Roxon where he was a senior strategic adviser. Prior to this he held senior positions within the Victorian State Government including senior adviser and chief-of-staff respectively to Deputy Premier John Thwaites and Cabinet Minister Bronwyn Pike.

Cbus is the industry super fund for the construction, building and allied industries. Established in 1984, it has grown to manage funds in excess of \$13 billion on behalf of more than 550,000 members.



Ian Silk, CEO, AustralianSuper



David Elia, CEO, HOSTPLUS



Anne-Marie Corboy, CEO, HESTA

**MORE
MONEY
FOR MEMBERS**



David Atkin, CEO, Cbus

FRONTIER FACES THE FUND MANAGERS

Asset consultant Frontier Investment Consulting has created a stir amongst fund managers by proposing a radical shakeup in the way fund managers are remunerated.

Superannuation and other funds use a variety of investment managers to invest members' funds. The global economic crisis has highlighted flaws in the common practice of fund managers charging fees based on assets under management.

Frontier has proposed the combination of a flat dollar fee to cover costs with a performance based fee to reward superior returns.

Wholesale review of fee structure

Frontier Managing Director Fiona Trafford-Walker says:

"We need a wholesale review of fee structures."

Mindful of the impact on members' retirement incomes industry super funds have been reviewing the fees paid and the number of investment managers used.

Frontier's suggestion to fund managers that they consider charging a flat dollar fee adjusted for inflation along with a performance based fee rather than an asset based fee is based on the belief that there should be a better alignment between the fund manager and the objectives of super funds.

Removing the free ride

Ms Trafford-Walker says the biggest problem is that the super fund pays all the money when the market rises and the manager gets a free ride.

"It is like winning lottery for fund managers. This proposal goes some way to addressing this imbalance and better aligning the interests of the members with those of the fund managers."

The growth of super funds under management over time has placed considerable pressure on the long standing asset based fee model. This pressure will continue as super funds continue to grow and merge, and innovation in fee structuring is expected to be well received by investors.

FROM LITTLE THINGS, BIG THINGS GROW

Bold new campaign

A bold new advertising campaign was launched by Industry SuperFunds in August 2009 to educate members about the core difference between Industry SuperFunds and retail super funds: that Industry SuperFunds act only for the benefit of members.

The 'Movement' campaign builds on the highly successful, long-running 'Compare the Pair' campaign and the 'Bernie Fraser Reassurance' campaign of 2008/09 that ran in response to the global financial crisis.

The Movement campaign focuses on the key message that Industry SuperFunds are run only to benefit members not shareholders. Based on this core principle Industry SuperFunds have low fees and pay no commissions to financial advisers, which can ultimately mean members are tens of thousands of dollars better off in retirement.*

* (See disclaimer on page 22)

Among best in Australia

Compare the Pair and Bernie Fraser – which both retain an important place in the advertising campaign – have been amongst the most successful superannuation advertisements in Australia.

ISN Executive Manager, David Whiteley, said "we feel very privileged to be using the Australian song 'From Little Things, Big Things Grow' in the new Movement advertisement."

"Adequate super in retirement is an important social issue. Industry SuperFunds work hard to act in the best interests of their members and now look after the super of nearly half of all Australian workers," he said.

Preliminary results from the campaign tracking study indicate unprompted advertising awareness in September and October 2009 was among the campaign's best to date.



ONLINE AND ON TARGET



The growing importance of a significant web presence has been recognised by the Industry Super Network and Industry SuperFunds.

The industrysuper.com website has recently undergone a major revamp. Industry SuperFunds have worked with the Industry Super Network to develop new features to the industrysuper.com website. This has significantly increased the information available to employees, employers and those seeking more information on Industry SuperFunds and superannuation generally.

The new site actively extols the virtues of Industry SuperFunds and provides practical assistance and up to date information to Industry SuperFund members and those thinking of joining an Industry SuperFund.

Compare your Super

The new site boasts a free fund comparator service and will soon include other tools to assist prospective members to make the switch to Industry SuperFunds. Videos and an expanded frequently asked questions section provide much needed help for employers and employees alike.

The comparator has drawn some feisty responses:

"Thanks for your information. As you suggested I had a look at the comparison between my AMP super and industry funds, I couldn't believe the difference!!!! How do I join an industry fund today!!!!"

The industrysuper.com website now enables practical assistance to be provided to the public. General inquiries are responded to by Industry Super Network staff.

JOINT SUPER CAMPAIGN FUNDS



Ian Silk
CEO

AustralianSuper

In the context of the GFC AustralianSuper has been focused – through all our communication channels - on helping members to understand the long-term nature of their superannuation. We have introduced new benefits and services, including limited personal advice through our contact centre and a dedicated Investor Education unit. We also announced the outcome of our major group cover insurance review, which will see significant improvements to our offering for members next year.



David Atkin
CEO

Cbus

In 2009, Cbus concentrated on protecting both the retirement savings and confidence of construction and building workers in the context of the global financial crisis. Our focus on helping members to make better decisions through improved financial literacy and awareness has resulted in the development of a member advice strategy. Implementation of the strategy is expected to be phased in over the next couple of years, giving all members access to a full spectrum of affordable, quality advice options relevant to their lifestyle.



David Elia
CEO

HOSTPLUS

We're committed to guiding our members towards a more prosperous future. That's why we will ramp up our financial literacy program Ka-ching! Ka-ching! with financial guru Scott Pape. The program is a targeted financial education series that generates interest in finance topics and delivers tips on how members can live richly, no matter what they earn. Once they are equipped with money "know how", we are confident they'll understand that HOSTPLUS is a great deal.



Anne-Marie Corboy
CEO

HESTA

HESTA, the fund more people in health and community services choose than any other, was once again a top rated fund by all ratings agencies. This included being rated AAA by Selecting Super and, in the top ten funds in 2009 and a Seven Year Platinum Performer, by SuperRatings. HESTA was also ranked 271st in Watson Wyatt's top 300 global pension funds and 10th out of the IBIS World Top 500 Private Companies.



Bill McMillin
CEO

TWUSUPER

While unsettling, the Global Financial Crisis brought super to the 'front of mind' of many Australians. In 2009, TWUSUPER continued to view this as an opportunity to build meaningful rapport with members, and developed a number of additional services to reassure and educate people in transport about their retirement potential.



Anthony Rodwell-Ball
CEO

NGS Super

The GFC heightened members' concerns about their retirement savings, prompting us to focus more closely on our value proposition. Accordingly, we have rolled out a new financial advice model, significantly invested in our website and appointed a new administrator. We will leverage this relationship to ensure that the first two initiatives are maximised through our communication and engagement strategy.



Graeme Russell
CEO

FIRST Super

Implementing the merger of the Furniture, Pulp & Paper and Timber industry super funds was the focus of 2008/09. Many members gained additional benefits - enhanced insurance cover, more investment choices and better access to financial planning services. Negative investment returns were very disappointing. First Super's investment options have been adjusted to aim for reasonable returns while reducing the chances of future losses.



Craig Stevens
CEO

AustSafe Super

This year started with SMART (Sugar Manufacturers Retirement Trust) merging into AustSafe Super, and the fund launching a new look. This new face coincided with many improvements to member services, including the adoption of a new financial advice model which included licensing the fund's Regional Managers to provide members with personal advice about their super.

4.9 MILLION SUPER FUND MEMBERS



Leanne Turner
Deputy Executive Director

MTAA Super

This turbulent period in world economic history has proved that superannuation is a long-term investment. While the GFC had a significant impact on MTAA Super's investments in 2009, our research indicates that the Two Portfolio Strategy's stability and growth over the past 10 years remains the best approach for protecting members' investments over the long-term. Our robust valuation process ensures our asset valuations reflect market movements in a timely fashion.



Julie Lander
CEO

CareSuper

In tough times, CareSuper's Balanced option returned a top quartile result of -9.5% and achieved the number one ranking for its 10-year return to 30 June 2009. We continue to focus on providing service and advice solutions, and an improved education strategy, while enhancing the sustainability of our investment and communication options.



Greg Sword
CEO

LUCRF Super

This was a year of laying a solid foundation of administration and bolstering member services. The fund introduced its new web-based administration platform and is well-placed to adapt to any regulatory changes quickly and cost-effectively. We also introduced improved insurance cover, reduced the fees on our pension products and maintained the same low fees for super members.



Ross Martin
CEO

Media Super

The Global Financial Crisis (GFC) has underlined the importance of liquidity. Every superannuation fund must ensure that it understands and manages its illiquid asset exposure. While this is not an issue for Media Super, all funds must understand and measure their illiquid exposure, paying particular attention to redemption conditions on manager products.



Mal Smith
CEO

REI Super

The key issue for REI Super concerned dealing with volatile investment markets, particularly during the period October 2008 to March 2009. We focussed on reassuring members and providing them with tools to respond to the events rationally, not emotionally. A further challenge was service providers being under pressure during this period.



Bob Henricks
Chair

SPEC Super

Over the past year, SPEC Super has successfully become a public offer fund, introduced four new investment options, employed an additional Fund Services Manager and undergone a logo refresh. SPEC Super was proud to be a finalist in the 2009 SuperRatings Rising Star Award. This award recognises funds that have demonstrated a clear commitment to improving the value of their offering to members.



Andrew Proebstl
CEO

legalsuper

In 2009 we welcomed two more super funds which merged into legalsuper - the Victorian Bar Superannuation Fund and Blake Dawson Partners Superannuation Fund. These funds added just over \$180M of FUM so that, unlike many other super funds, legalsuper's assets increased rather than decreased in the 2008/09 financial year.



David Whiting
Trustee

AUST (Q)

Due to AUST(Q) offering just the one balanced investment option, being the balanced fund, members have not crystallised the losses resulting from the GFC, and have since enjoyed the inevitable market rebound. The fund has also introduced a financial planning service to members, via Industry Fund Financial Planning, to support them through these challenging times.

INDUSTRY SUPER NETWORK'S PARTNERS



Ann Byrne
CEO

ACSI builds governance role

2009 has been an exciting year for the Australian Council of Superannuation Investors (ACSI) since the introduction of our new brand and website. We released our revised "ACSI Guidelines" monitoring Australian listed companies on ESG risks and our advocacy was expressed in numerous submissions on Executive Pay, Short Selling and the Cooper Review throughout the year. ACSI will continue to concentrate on company engagement, active member shareholder voting and research as key issues moving forward.



Garry Weaven
Chair

IFM – one of few managers in world to grow

Thanks to strong support from major shareholders and continuing progress in attracting new investors, Industry Funds Management (IFM) was one of very few managers in the world to have actually grown during 2009, with approximately 110 staff, \$21 billion in funds under management and 50 clients globally at the end of November 2009.



Nick Vamvakas
Acting CEO

ME Bank positioned for growth

Under the guiding hand of Acting CEO Nick Vamvakas, 2009 saw ME Bank come positively through the Global Financial Crisis, with world leading issues of Residential Mortgage Backed Securities (RMBS) to full subscription. Coupling the RMBS issues with a successful Medium Term Note issue, and shareholder capital raisings, has seen ME Bank position itself for future growth.



Gregg Camm
CEO

Superpartners launches nextGEN

In 2009 Superpartners launched our nextGEN transformation programme, while dealing with the impact of the global economic downturn and major changes in government policy relating to superannuation. We focussed on providing day to day services that help secure a better future for members while continuing to rollout key elements of nextGEN.



Kay Thawley
CEO

Industry Super Network welcomes IFS CEO Kay Thawley to her new role.

IFS specialists in wealth management

Industry Fund Services (IFS) provides superannuation, wealth and advice services to members of industry super funds (over 5 million of them).

At the end of 2009 IFS held over \$1 billion dollars in member funds under management across MEIF, IRIS and AUSfund.

IFS Insurance Broking grew fund advisory relationships and continues to consolidate their position as the leading provider of insurance services to the industry super network.

AUSfund and Industry Fund Credit Control reunited 172,000 members with over \$60 million of lost superannuation and a further \$75 million in unpaid employer contributions, while IFFP remains on track in 09/10 to provide financial advice to more than 15,000 members.

In 2010 IFS will partner with Funds to improve the accessibility and affordability of financial advice, core investment and insurance products and services to funds that leverage our specialisation in wealth management.



Fiona Reynolds
CEO

AIST's busy training and policy agenda

2009 proved to be a busy year for the Australian Institute of Superannuation Trustees (AIST) as we responded to a host of government and industry developments affecting our \$450 billion not-for-profit super sector. While the Henry tax and the Cooper super reviews dominated our work on the policy front, research projects focused on member switching trends and the climate challenge for super funds. Despite the economic downturn, AIST experienced increased demand for its educational and training services and attendance figures for our conferences and industry luncheons remain extremely healthy.



MOTHER'S DAY CLASSIC

\$5.7 MILLION RAISED FOR BREAST CANCER RESEARCH

The national Mother's Day Classic has raised more than \$5.7 million for research into the prevention and cure of breast cancer.

Groups and individuals have raised tens of thousands of dollars to try and stop the disease that affects 1 in 9 women before age 85.

The 2009 event attracted record numbers, with more than 80,000 Australians running or walking in Adelaide, Brisbane, Canberra, Hobart, Melbourne, Perth, Sydney (the Domain and Parramatta Park) and 28 regional locations.

Mother's Day Classic National Chair, Louise Davidson, said organisers were overwhelmed by this year's results with additional funds of \$1.3 million for 2009 alone.

"It's great that the Classic has maintained such spectacular growth and raised so much money for breast cancer research – this is largely due to the support of industry super funds and their related organisations."

The major sponsor, ME Bank invited Melbourne participants to register for a free pedometer. Every recorded step attracted a dollar contribution with ME Bank presenting a cheque to the National Breast Cancer Foundation for \$26,912.

WORKING TOGETHER TO TRANSFORM SUPER

Industry Super Network (ISN) is an umbrella organisation for the industry super movement. ISN manages collective projects on behalf of a number of industry super funds with the objective of maximising the retirement savings of five million industry super members. ISN works with government and regulators to achieve an efficient superannuation system that operates in the best interests of members and grows national savings.



Amanda Hill



Sacha Vidler



Phil Davey



David Whiteley



Kate Macpherson



Erin Sales (left) and Robbie Campo (right)



Matthew Linden



Alison Mclvor



Julia Finn (right)



Ted McDonnell



Anna Goldstein



Helen McCready



Jo McNaughton



Matthew Steen



Richard Watts (left)



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Disclaimer (*Page 16) Based on projected outcomes applying today's average fees for samples of Industry SuperFunds and samples of retail super funds (retail master trusts). Differences in fees may change in the future and this would alter the outcome. Comparisons modelled by SuperRatings, commissioned by Industry Fund Services. The modelling is based on various assumptions which are disclosed and explained at www.industrysUPER.com/assumptions. Consider your own objectives, financial situation and needs before making a decision about superannuation because they are not taken into account in this information. Industry Fund Services Pty Ltd ABN 54 007 016 195 AFSL 232514



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