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1. What is the Annual Performance Test (APT)?

The Annual Performance Test (APT) is part of the Your Future, Your Super (YFYS) reforms and is intended to assess an investment product's long-term performance, generally over a ten-year period.

This is the second year that the APT applies to Trustee-Directed Products (TDPs) including multi asset investment options across all super and non-commutable allocated pension (NCAP) products available on AMP's wrap platforms. The test is conducted by APRA in August for the previous financial year reporting period.

Investment options which don't meet the benchmark as set out by law are classed as underperforming, and the Trustee is required by law to write to all clients who hold these investment options at the time of APRA notification as well as publishing the outcomes on the public website. The Trustee is required to send these communications within 28 days of being notified by APRA.

If an investment option fails the APT over two years consecutively, it will be closed to new members (until such time that it passes subsequent annual performance tests).

2. What are Trustee-Directed Products (TDPs)?

Trustee-Directed Products are **accumulation** choice products with strategic asset allocations to more than one asset class where the Trustee or a related entity has control over the design or implementation of the investment strategy of the product.

Broadly, all wrap platform TDPs are diversified, multi asset investment options where there is a related party in AMP Investments as fund manager/Responsible Entity and they are offered through the North and Asgard platforms.

3. When will APT results be confirmed by APRA?

We're expecting that APRA will notify the Trustee by the end of August.

Adviser and client impacts

4. What do I need to do?

There is no immediate action required for you or your clients prior to the APT results being announced. When considering what this means for your clients once the APT results are available, you should refer to the licensee's advice policies including the approved product list (APL) to identify any advice implications, for example if there are any changes to the status of an investment options and if there are any advice implications. Licensees may need to review the APL considering APT outcomes. You should also make sure their clients' portfolios remain aligned with their investment aims and strategies.

5. When can I expect to receive communication?

Following the APT results confirmation, we'll communicate to you which options have failed and the steps we'll be taking to communicate to clients who hold these options.

Client lists will be provided to you prior to us sending fail notices to clients. You may wish to contact those clients in advance of the fail notices being sent to inform them about what's coming and what this means for them.

6. When are you communicating with my clients?

Following the confirmation of APT results, clients who hold investment options which have failed will be notified by the Trustee.

The regulations will provide the Trustee (and all other providers) with prescribed wording which must be in the letter sent to clients who hold failing investment options. This must be a physical letter¹ and sent within 28 days of the Trustee being told of the failing investment options by the regulator. There is little scope to edit this letter as it is prescribed by law.

We expect to write to affected clients by mid to late September 2024. We're also including a cover letter with the prescribed fail notice to provide more information about the APT and explanatory notes about the notice.

7. Do my clients need to do anything?

While your clients aren't specifically required to take any action, we expect that the prescribed wording included in the client notification suggests that clients should review their arrangements and potentially seek an alternative super fund and/or investment options.

Your clients' interests may be best served by remaining invested within their current investment options. The APT approach doesn't take into account personal situations such as investment goals and values as well as insurance, fee, transactional costs and tax impacts. We believe your clients should consider speaking to you about their personal circumstances before taking any action.

8. What is the requirement for clients to receive the APT failure notification?

The main requirement is that a client who had a holding in the investment option that failed the APT would receive the fail notification. Clients who had zero balance holding but have the investment option/s that failed the test in the account's *automatic buy profile/investment instructions* or *automatic rebalance profile* would also receive the fail notification.

Note that selling out of an asset doesn't automatically change investment instructions. This needs to be done manually by the adviser/support staff.

¹ An electronic version of the letter will also be added to the client's filing cabinet where the client has elected to receive electronic communication as their preference.

9. What balances, fees and costs are included in the prescribed fail notification for clients?

The account balance shown in the notice relates to the client’s entire super account (and pension account, if they have one), and the fees and costs stated exclude any applicable insurance fees for the period. The fees and costs shown in the notice are for the financial year to 30 June 2024. This approximate amount includes all the fees and both direct and indirect costs that affected their holdings. The Direct Fees category also includes Advice fees paid.

The formula used in the calculation is *Total Fees and Costs = Direct Fees + Indirect Fees from investment + Underlying investment option fees and costs*

For ease of reference, these can be compared to their equivalent categories in the annual statement. The client’s annual statement is based on the account anniversary date while the APT notice is for the financial year to 30 June 2024 so the actual amounts are likely to be different due to different time periods.

- *Direct Fees = (Money out fees and costs) minus (Money in fees and costs)*

Money in	Money out	Investment earnings
\$123,456.79	\$123,456.79	\$123,456.79
Contributions	Withdrawals	Income from investments
\$123,456.79	\$123,456.79	\$123,456.79
Rebates	Fees and costs	Growth from market movements
\$123,456.79	\$123,456.79	\$123,456.79
Fees and costs	Tax paid	
\$123,456.79	\$123,456.79	
Insurance	Insurance premiums	
\$123,456.79	\$123,456.79	
Tax refunds		
\$123,456.79		

- *Indirect Fees from investment = Fees and costs deducted from your investment*

Fees and costs summary

Type	Amount
Fees deducted directly from your account ¹	-\$261.96
Fees and costs deducted from your investment ²	-\$52.94
Total fees and costs you paid ³	-\$314.90
Underlying investment option fees and costs ⁴	-\$6,845.51
Total fees and costs you paid – including underlying investment option fees and costs ⁵	-\$7,160.41

- *Underlying investment option fees and costs = Underlying investment option fees and costs (management costs, performance fees, transaction costs and buy/sell costs)*

Fees and costs summary

Type	Amount
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Total fees and costs you paid – including underlying investment option fees and costs ⁵	-\$7,160.41

APT methodology

10. How is the APT applied?

The APT will assess TDP investment options according to a prescribed benchmark. They include elements of investment performance, administration fees and median performance across the industry.

The regulations state:

- An administration fee benchmark is determined as Representative Administration Fees and Expenses (RAFE) fee based on a \$50,000 balance for all products of that type (ie TDP) for the most recent financial year.
- An investment option's actual net investment return is compared against its investment return benchmark over a 10-year lookback.
- Actual administration fees charged for the most recent financial year are compared against the relevant administration fee benchmark.
- Investment options that underperform their net investment return benchmark and administration fee benchmark by 0.5% (negative 50 basis points) are classified as underperforming.

$$(\text{Actual return} - \text{Benchmark return}) + (\text{Benchmark RAFE} - \text{Actual RAFE}) \leq -0.50\%$$

The following example shows how a hypothetical fund may be assessed against a benchmark.

Investment Option Name	Actual return (AR)	Benchmark return (BR)	Admin fee benchmark (BF)	Actual admin fee (AF)	Performance measure (AR-BR) + (BF-AF)	APT result
ABC	3.70%	3.60%	0.40%	0.38%	0.12%	Pass The performance measure for the option exceeds the benchmark so it passes the test
DEF	3.30%	3.60%	0.40%	0.44%	-0.34%	Pass The performance measure for the option underperforms the benchmark but is within the 0.5% threshold so the option passes the test
XYZ	3.05%	3.60%	0.40%	0.40%	-0.55%	Fail The performance measure for the option underperforms the benchmark by more than 0.5% so the option fails the test

11. What are the benchmarks used by APRA?

The following are the benchmarks, as prescribed by the regulations, used by APRA to construct individual investment return benchmarks for each MySuper product and TDP based on the product's SAA and prescribed covered asset class market indices, assumed fees and tax (where relevant).

Covered asset classes, assumed indices, assumed annual fees and assumed tax rates for quarters starting on or after 1 July 2014				
Item	Description	Assumed index	Assumed annual fee	Assumed annual rate of tax
1	Australian Equity	ASA52 S&P/ASX 300 Total Return Index	0.05%	0.00%
2	International Equity (hedged; international economy type not specified or not applicable)	DE725341 MSCI All Country World Ex-Australia Equities Index with Special Tax (100% hedged to AUD)	0.11%	14.00%
3	International Equity (hedged; emerging markets)	DA725342 MSCI Emerging Markets with Special Tax (100% hedged to AUD)	0.16%	14.00%
4	International Equity (hedged; developed markets)	DA750700 MSCI World ex Australia with Special Tax (100% hedged to AUD)	0.10%	14.00%
5	International Equity (unhedged; international economy type not specified or not applicable)	DN714533 MSCI All Country World Ex-Australia Equities Index with Special Tax (unhedged in AUD)	0.09%	14.00%
6	International Equity (unhedged; emerging markets)	NA714531 MSCI Emerging Markets with Special Tax (unhedged in AUD)	0.14%	14.00%
7	International Equity (unhedged; developed markets)	NA714532 MSCI World ex Australia with Special Tax (unhedged in AUD)	0.08%	14.00%
8	Australian Listed Property	ASA6PROP S&P/ASX 300 A-REIT Total Return Index	0.12%	14.00%
9	International Listed Property	RAHRSAH FTSE EPRA Nareit Developed ex Aus Rental 100% Hedged to AUD Net Tax (Super) Index	0.22%	14.00%
10	Australian Listed Infrastructure	FDCICSAH FTSE Developed Core Infrastructure 50/50 100% Hedged to AUD Net Tax (Super) Index	0.26%	14.00%
11	International Listed Infrastructure	FDCICSAH FTSE Developed Core Infrastructure 50/50 100% Hedged to AUD Net Tax (Super) Index	0.26%	14.00%
12	Australian Unlisted Property	MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index – NAV-Weighted Post-Fee Total Return (All Funds)	0%	14.00%

13	International Unlisted Property	MSCI Global (Excl. Pan-Europe and Pan-Asia Funds) Quarterly Property Fund Index (Unfrozen) (Net Total Return; AUD fixed)	0%	14.00%
14	Australian Unlisted Infrastructure	MSCI Australia Quarterly Private Infrastructure Fund Index (Unfrozen) – 50th Percentile Post-Fee Total Return (All Funds)	0%	14.00%
15	International Unlisted Infrastructure	MSCI Australia Quarterly Private Infrastructure Fund Index (Unfrozen) – 50th Percentile Post-Fee Total Return (All Funds)	0%	14.00%
16	Australian Fixed Income	BACMO Bloomberg Ausbond Composite O+ Yr Index	0.10%	15.00%
17	Australian Fixed Income Excluding Credit	BAGVO Bloomberg Ausbond Govt O+ Yr Index	0.08%	15.00%
18	Australian Credit	BACRO Bloomberg Ausbond Credit O+ Yr Index	0.15%	15.00%
19	International Fixed Income	LEGATRAH Bloomberg Global Aggregate Index (hedged AUD)	0.10%	15.00%
20	International Fixed Income Excluding Credit	BTSYTRAH Bloomberg Global Treasury Index (hedged AUD)	0.08%	15.00%
21	International Credit	LGCPTRAH Bloomberg Global Aggregate Corporate Index (hedged AUD)	0.15%	15.00%
22	Australian Cash	BAUBIL Bloomberg Ausbond Bank Bill Index	0.04%	15.00%
23	International Cash	BAUBIL Bloomberg Ausbond Bank Bill Index	0.04%	15.00%
24	Alternatives		0%	0%
25	Defensive Alternatives		0%	0%
26	Growth Alternatives		0%	0%

12. How does the test work where the same investment option is available on multiple platforms with different administration fees?

Where the same investment option is made available on multiple platforms, the test applies a weighted average administration fee rather than the actual administration fee that would apply for each individual platform. An example for AMP would be some of the Experts' Choice (EC) range which are available on North/MyNorth and PortfolioCare. Rather than use the North/MyNorth administration fee, a weighted average across PortfolioCare and North/MyNorth is applied.

13. Are licensee model portfolios tested under APT?

Licensee model portfolios are not included in the test on their own as they're not classified as a product. Licensee research team constructs these model portfolios and they're regularly reviewed including the fund composition to improve the likelihood of investors achieving their long-term investment objectives.

The underlying investment options may be in scope for APT depending if they're classified as a Trustee Directed Product. For example, North Lite Model portfolio (Core/Satellite) for accumulation phase uses MyNorth Index range for the Core component and it's available through MyNorth, PortfolioCare and WealthView products. MyNorth Index range is classified as a Trustee Directed Product in scope for APT.

14. Are Separately Managed Accounts (SMAs) tested under the APT?

Yes, SMAs or Managed Portfolios are tested under the APT if they meet the criteria. MyNorth Managed Portfolios **are not** classified as TDPs so are not in scope for APT.

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What are we doing to be prepared for the APT

15. What is AMP's position on the APT?

AMP is generally supportive of the principles and intent of the APT to improve member outcomes. Nevertheless, given its current design for wrap platforms, we believe that the APT could cause unnecessary confusion and potential adverse outcomes for members due to the following limitations and unintended consequences:

- The APT benchmarks are based on a \$50,000 account balance* for all products of that type, whilst the average balance for a client invested in a Wrap product is higher with typically lower fees.
- The administration fee benchmark is based on Standard Fee pricing and the test doesn't consider if a client received a discount (such as family fee discount).
- Their investment options may still be experiencing positive performance.
- Their investment options may be experiencing performance in line with, or better than, their stated investment objective.
- Their investment option is a goals/objective based fund or guarantee backed option that the APT assessment does not recognise.

*Note: the \$50,000 account balance is used as a standard disclosure example (e.g PDS) to assist members to compare fees and costs between superannuation products regardless of the structure (i.e. Master Trust or wrap).

16. Is AMP involved in any industry or regulatory discussions about the APT?

AMP has been regularly meeting with the regulators, Treasury and Government to better understand the APT criteria and to advocate for the member outcomes and their investments. AMP has also been a strong advocate for ensuring the test is fit for purpose for wrap platforms, both directly engaging with Government and through industry bodies including the FSC and ASFA.

17. What is being done to improve the APT outcomes for TDP investment options offered through our wrap platforms?

We're committed to offering investment options which meet client needs and are market competitive and will continue to review and enhance the investment options we offer.

We're taking a measured approach that involves portfolio changes including the redesign of how funds are managed across different classes to align more with the APT approach, where appropriate.

Risk management is an important part of managing portfolios to achieve their investment objective. Successful investment outcomes depend on understanding, identifying and mitigating risk at every turn, whilst also striking the right balance between risk and opportunity.

Failing the APT is a risk (among many) that we seek to manage. We have where possible (and where it makes sense to do so in the context of the overarching investment objective) sought to reduce the risk of failing the test. This has included:

- Applying the same benchmarks used for the APT as our internal fund/option benchmarks.
- Aligning our asset class classifications with the test's underlying structure – this provides a better way to understand and manage the risk we carry relative to the APT benchmarks.
- Introducing strategies that have demonstrated more consistent outperformance to the new APT benchmarks (such as private debt).
- Restructuring/reducing exposure to alternative strategies as an example, because they may struggle to consistently outperform the new alternatives benchmarks.

- Scaling/modifying the way we implement dynamic asset allocation positions based on how an option is performing versus the APT hurdle.

Each strategy is defined by its investment objective. Objectives can include; targeting a real rate of return, competitive peer performance, income or volatility targets – and these objectives are typically specified over a certain investment horizon. Each year, we perform an annual Strategic Asset Allocation (SAA) review to ensure the asset allocation targets are appropriate to achieve the investment objective for each option.

18. What investment options on wrap platforms may fail the APT?

We have undertaken preliminary modelling to understand which investment options may fail the performance test for 2023–24.

The results of the APT for wrap platforms will not be known until late August 2024.

19. Who do I contact if I have further questions?

If you have any questions, please speak to your Business Development Manager.

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