



# Chant West Media Release

21 January 2013

## Super delivers best return in 20 years

2013 was an outstanding year for super funds, and especially those oriented to Australian and international shares. Resurgent share markets saw the median growth fund (61 to 80% invested in growth assets) return 17.5%, the best performance in the past 20 calendar years and the second highest since the introduction of compulsory super in 1992. The top-performing fund for the year was REST Core, which returned 19.7%, while even the worst-performing fund in the category gained 11.3%.

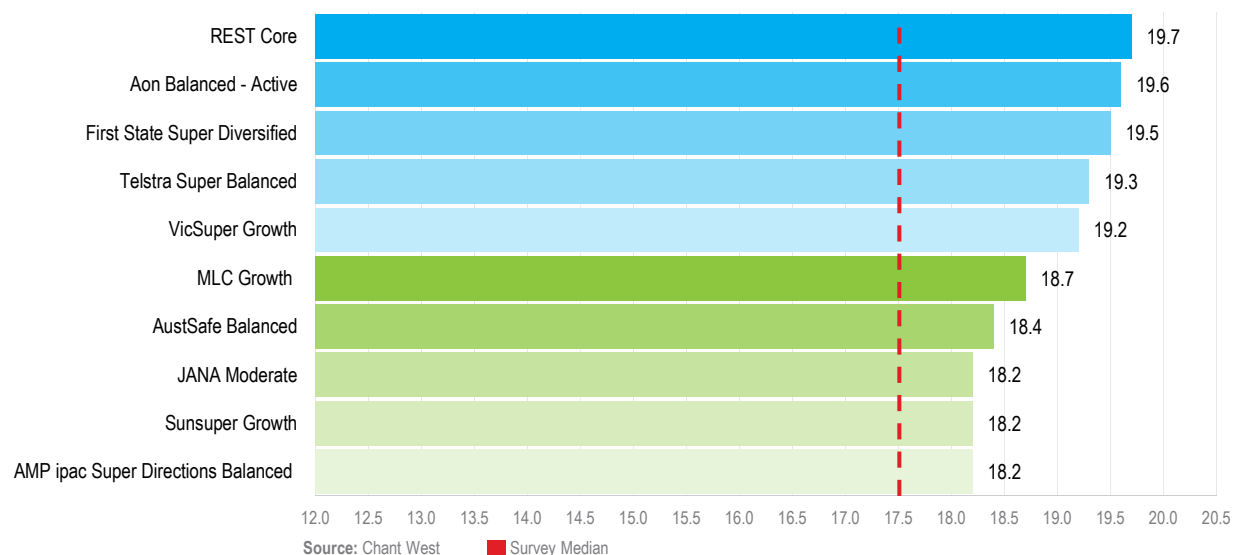
Chant West director, Warren Chant, says: "We've now had nine positive calendar year returns in the past eleven. Of course, one of those two negative years was 2008 when, in the depths of the GFC, the median growth fund sustained a 21.5% loss. However, funds have bounced back strongly from that setback, and now stand about 21% above their pre-GFC high achieved in October 2007. They've gained an impressive 64% since the GFC low-point, which came at the end of February 2009.

"The great majority of Australian workers are in their employer's default growth fund, so if they sat tight while the GFC came and went they will have emerged with their savings relatively unscathed. And, of course, the contributions going into their accounts during those GFC-affected years have bought assets at depressed prices. That's one of the benefits of our system where contributions go in regularly, regardless of the state of financial markets. Sometimes you're buying assets at bargain prices, even if you don't appreciate it at the time.

"While growth funds are well diversified across different sectors, listed shares and property are still the biggest components of their investment mix. On average, they have about 57% of their investments in those sectors, so share market performance is the main influence on their overall performance. Share markets in general performed well in 2013, but international shares outperformed Australian shares. Currency movements were also a major factor, with the A\$ losing value against the US\$ in particular. As a result, the funds that did best were those that had significant investments in international shares and chose to have a lower portion of their foreign currency exposure hedged."

Chart 1 shows that, of the top performing growth options over the year, six are from the not-for-profit sector and four are retail master trusts. The chart is based on individual options with assets of \$500 million or more.

Chart 1: Top 10 Performing Growth Funds (1 Year to December 2013 - %)



Note: Performance is shown net of investment fees and tax. It is before administration fees and adviser commissions.



Table 1 compares the median performance for each category in Chant West’s multi-manager survey, ranging from All Growth to Conservative. It shows how the ‘GFC effect’ is diminishing with time. While the 7 year returns are still somewhat subdued, all the other periods are showing solid performance, reflecting the strong recovery in listed share and property markets.

Table 1: Diversified Fund Performance (Results to 31 December 2013)

Fund Category	Growth Assets (%)	3 Mths (%)	FYTD (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)
All Growth	100	5.9	13.8	24.1	10.2	11.2	3.2	7.3
High Growth	81 – 100	5.1	11.5	20.8	9.8	10.6	3.8	7.6
Growth	61 – 80	4.2	9.6	17.5	9.1	9.1	4.2	7.2
Balanced	41 – 60	3.1	6.9	12.4	8.1	8.4	4.6	6.6
Conservative	21 – 40	2.1	4.8	8.5	6.8	7.1	4.7	6.1

Source: Chant West

Note: Performance is shown net of investment fees and tax. It does before administration fees and adviser commissions.

### Long-term return and risk objectives have been achieved

While the 17.5% financial year return is an exceptional result, Chant cautions members not to get carried away with a one year figure. “You’ve always got to remember that superannuation is a long-term investment. There will be good times and bad times, and you certainly can’t expect returns like this every year.”

The typical return objective for a growth fund is to beat inflation by 3 to 4% (after investment fees and tax) over rolling five year periods which, in today’s low inflation environment, translates to 6% to 7% per annum. In addition, funds typically have a risk objective which is to post a negative return no more often than once in every 5 years on average.

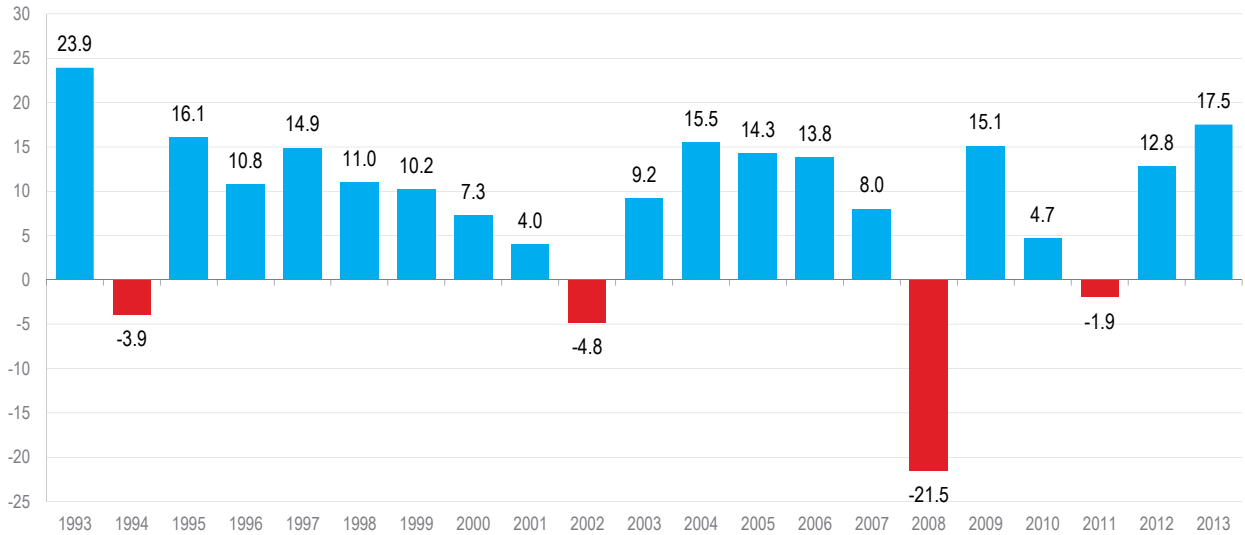
Chant says: “To judge whether funds are meeting their long-term objectives, you really need to look back as far as you can, and certainly well past the GFC. We now have reliable data for all the major funds going back 21 and a half years to July 1992, which is when compulsory super came in. If we look back over that period we see that funds have achieved those return and risk objectives.

“The annualised return over that period is 8%, the annual CPI increase is 2.6%, so the real return above inflation has averaged 5.4% per annum. As for risk, there were four negative years out of the past 21 calendar years which averages out to about one in five, so that objective was also met. The bottom line is that, over the 21+ years in which we’ve had compulsory super, Australia’s major funds have done what they set out to do. That’s the key message, because if people have confidence in super it encourages them to take more interest in it and really get engaged with what is – or will be – their biggest financial asset.”



Chart 2 shows the median growth fund performance for each of the full 21 calendar years since the start of compulsory super in July 1992.

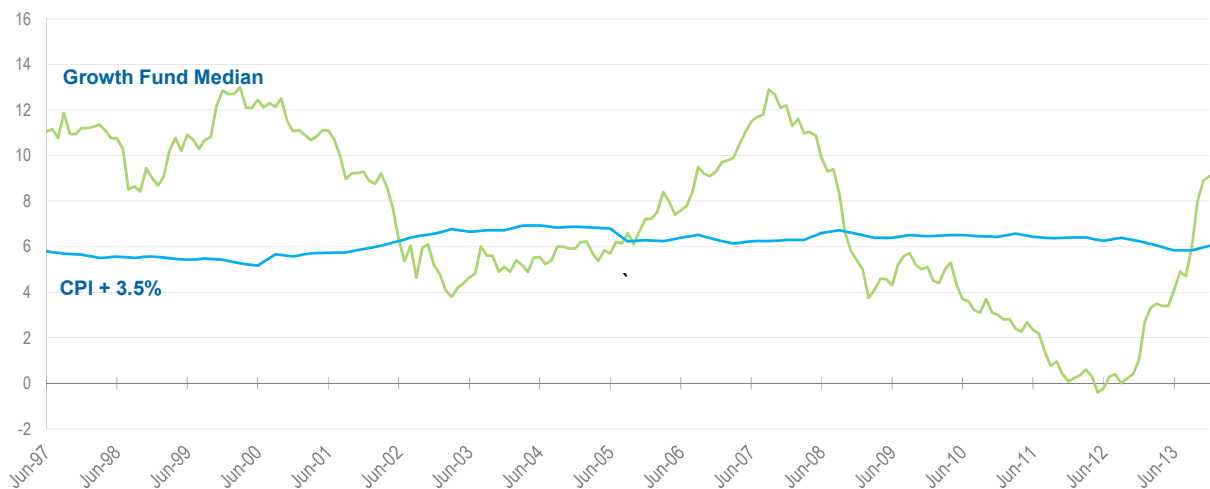
Chart 2: Financial Year Performance (Median returns for growth funds – %pa)



Source: Chant West

Chart 3 compares the performance since July 1992 – the start of compulsory superannuation – of the Growth category median with the typical return objective for that category (CPI plus 3.5% per annum after investment fees and tax over rolling five year periods). The strong returns of the past two years, combined with the GFC period gradually working its way out of the calculation, has seen the five year return rise quite markedly and it is now well above that CPI plus 3.5% target.

Chart 3: Growth Funds – Rolling 5 Year Performance (Returns – %pa)



Source: Chant West

Note: The CPI figure for the December 2013 quarter is an estimate.



## The investments that drove the performance

While there are differences between funds' investment strategies, even within the same risk category, most of their performance is driven by what happens in the major investment markets. For growth funds, that is primarily the Australian and international share markets. Table 2 shows the performance of all the main asset sectors over different time periods. We have used market indices for all sectors other than private equity and unlisted infrastructure. For those sectors, we have used the returns of a major fund in our survey that are representative of those markets.

Table 2: Asset Sector Performance (Results to 31 December 2013 )

	3 Mths (%)	FYTD (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)
Australian Shares	3.4	14.0	19.7	8.5	12.3	3.5	9.5
International Shares (Hedged)	8.6	15.4	29.2	12.2	14.4	3.2	6.4
International Shares (Unhedged)	13.2	19.7	48.0	16.9	9.3	1.9	5.0
Private Equity	5.7	7.9	12.5	9.6	5.7	4.9	-
Australian Listed Property (REITs)	-1.4	-1.3	7.3	11.9	8.8	-6.5	2.2
Global Listed Property (REITs)	0.1	0.2	6.8	11.9	17.5	0.6	-
Australian Unlisted Property	1.7	3.9	8.9	9.0	5.4	6.6	9.1
Global Listed Infrastructure (Hedged)	3.7	7.7	18.5	10.6	9.5	4.1	-
Unlisted Infrastructure	3.3	4.9	11.0	10.2	6.6	7.6	-
Australian Bonds	0.4	1.4	2.0	7.0	5.7	6.7	6.2
International Bonds (Hedged)	0.8	2.3	2.3	7.4	7.9	7.9	7.5
Hedge Funds	4.1	5.8	9.7	4.8	8.7	4.7	6.4
Cash	0.6	1.3	2.9	3.9	4.0	4.9	5.2

Source: Chant West

The key points to note for the 2013 calendar year are:

- By far the best performing sector was unhedged international shares, which delivered a stunning 48% return. Even in fully hedged terms international shares surged 29.2%, but the decline in the Australian dollar (from US\$1.04 to US\$0.89) magnified that performance
- Australian shares also had a strong year, returning 19.7%
- Listed property was positive but less spectacular, with Australian REITs gaining 7.3% and global REITs up 6.8%
- Among the defensive sectors, Australian bonds and international bonds registered small positive returns of 2.0% and 2.3% respectively, while cash delivered 2.9%
- Unlisted property rose 8.9%, while unlisted infrastructure returned 11%
- The other so-called 'alternative asset' sectors, private equity and hedge funds, also made positive contributions of 12.5% and 9.7%, respectively



### Industry funds win out despite share market exposure favouring master trusts

Normally, such a good year for listed share and property markets would favour master trusts because of their higher exposure to these sectors (59% versus 55% for industry funds). 2013 proved an exception, however, with industry funds finishing the year ahead, returning 17.4% versus 16.9%. This was mainly because they also have a much lower exposure to bonds and cash (14% versus 25%), which were the worst performing sectors. So industry funds won the year, and they also hold the advantage over the longer term, having returned 7.4% per annum against 6.8% for master trusts over the ten years to December 2013 but the gap is narrowing. Chart 4 compares the performance of the two segments over each of the past ten years.

Chart 4: Industry Segment Single Year Returns to December (Median Returns for Growth Funds -%pa)

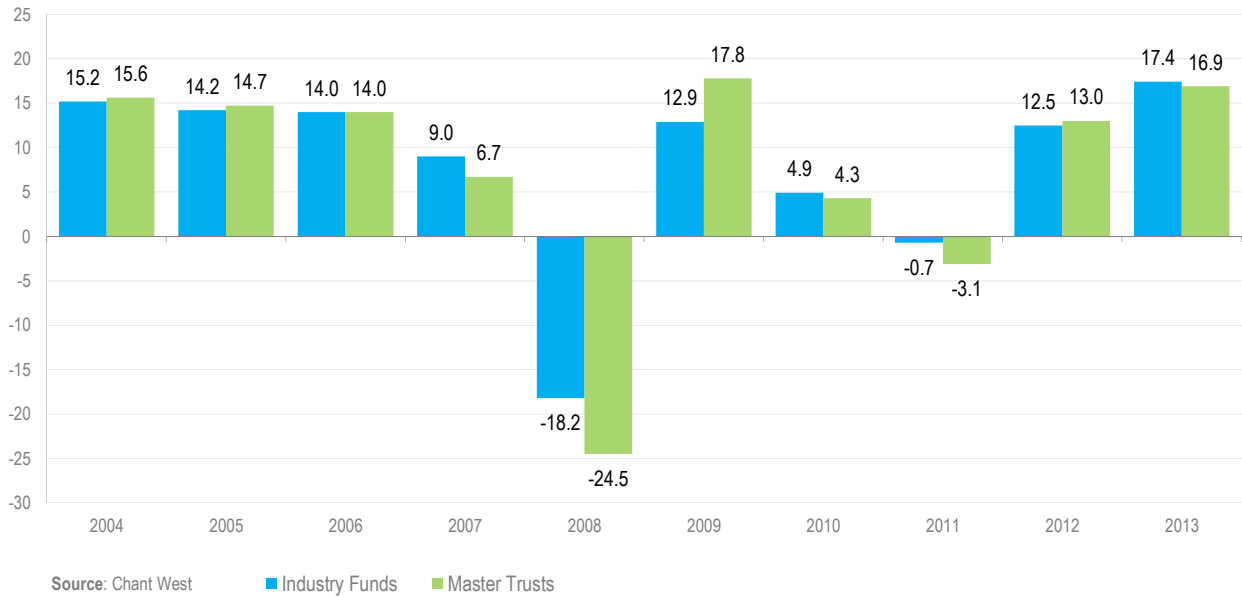
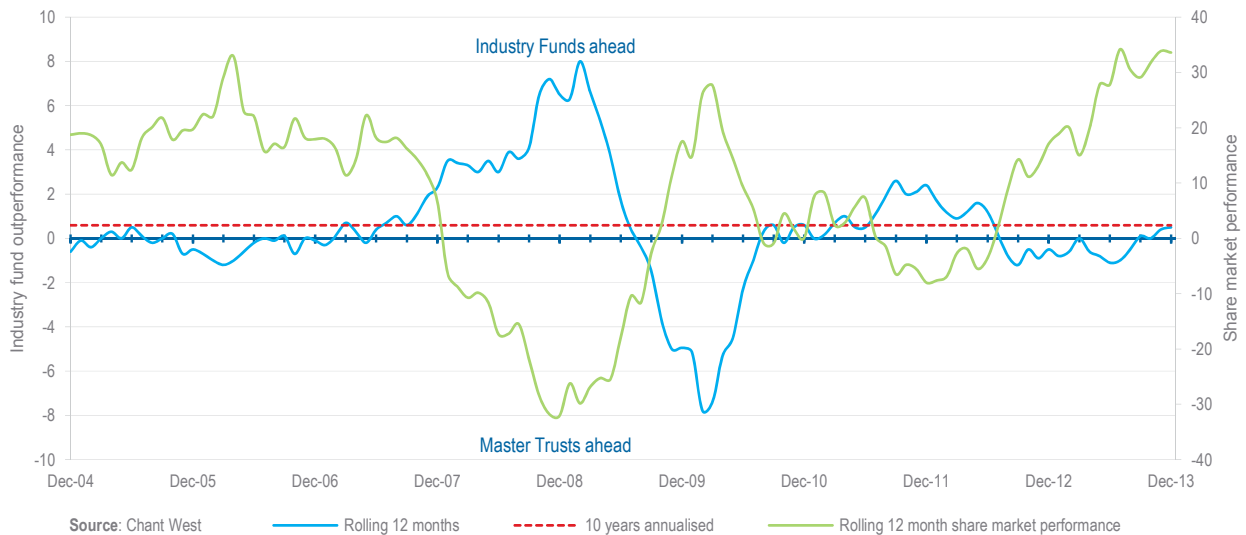


Chart 5 shows the inverse relationship between share market performance (the green line in the chart which is based on a 50/50 split between Australian shares and unhedged international shares) and the industry funds' outperformance (the blue line). It shows that, in general, weak share markets favour industry funds while strong share markets slightly favour master trusts because of the latter's higher weighting to listed shares and property.

Chart 5: Industry Fund Performance Relative to Master Trusts (Rolling 12 month & 10 year annualised relative performance - %pa)



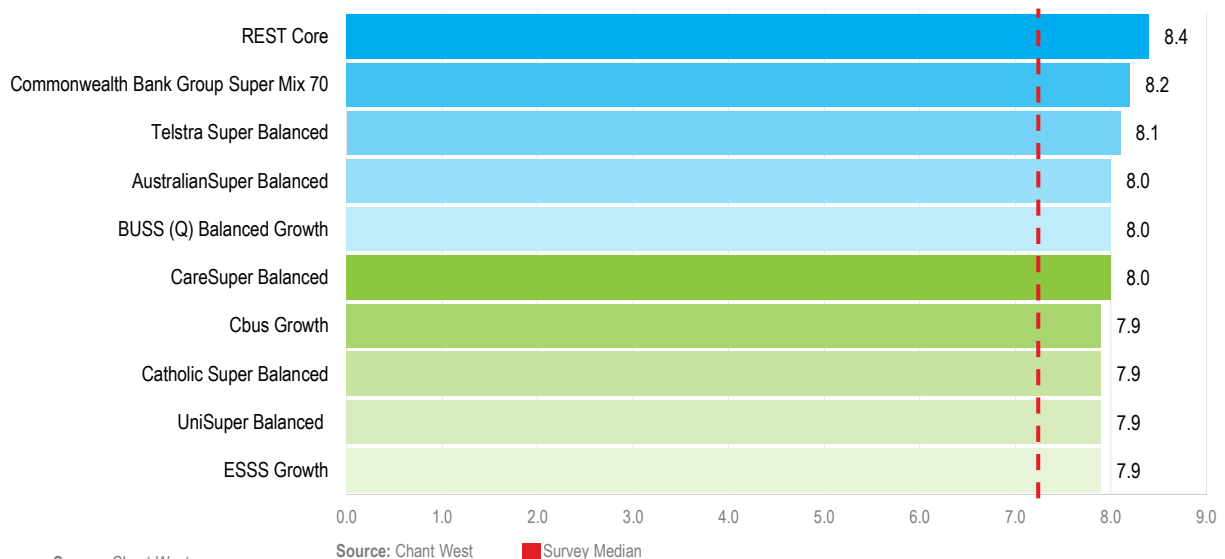
**Chart 5** also highlights that the difference in performance between industry funds and master trusts is highly correlated with the performance of listed share markets (share market performance in the chart is based on a 50/50 split between Australian shares and unhedged international shares).

Chant says: "Over the longer term, industry funds have outperformed master trusts because, as a group, they have tended to have lower allocations to listed shares. In relative terms they do better when shares produce low or negative returns, as was the case for several years in the past decade. The corollary is that they also have higher allocations to unlisted assets such as private equity, unlisted property and unlisted infrastructure (19% versus 4%), which have performed relatively well for them.

"Over the longer term, the strategic allocation policies of industry funds have served them very well. Those allocations to unlisted assets have added to performance and reduced volatility, or risk. They do mean slightly higher investment costs, but those extra costs have been more than justified by the added benefits."

"Master trusts have not been idle, however, and in recent years they have become much more active in their asset allocation decisions. That, together with a greater acceptance of alternative assets, has seen them close the gap on their industry fund competitors. Nevertheless, as shown in **Chart 6**, the top 10 list for performance over ten years is still dominated by industry funds."

**Chart 6: Top 10 Performing Growth Funds (10 Years to December 2013 – %pa)**



**Note:** Performance is shown net of investment fees and tax. It does before administration fees and adviser commissions.

*Release Ends*

## About Chant West



Chant West Director, Warren Chant, is available to discuss this release. Please call Warren or Janeen Armstrong on (02) 9361 1400 to arrange a time.

Warren is an expert in the industry with over 30 years' experience, and regularly provides commentary on superannuation issues.

We publish a monthly superannuation fund performance survey and a quarterly pension performance survey. Returns for investment options in the Growth and Conservative categories are published on our website at [www.chantwest.com.au](http://www.chantwest.com.au).