



Chant West Media Release

20 February 2014

Share market stutter sends funds into reverse

A pull-back in major share markets sent super funds on the retreat in January. The median growth fund (61 to 80% allocation to growth assets) returned -0.9% for the month, pulling back the return for the seven months of the financial year to date to 8.4%. This was the first negative month this financial year and only the fourth since December 2011.

Growth fund returns are driven mainly by listed share markets, and these finished the month in the red. Australian shares fell 3% and international shares were down 3.2% on a hedged basis although, due to a fall in the Australian dollar (down from US\$0.91 to US\$0.87), the loss in unhedged terms was limited to 1.2%. Listed property, on the other hand, had a positive month, with Australian and global REITs returning 0.4% and 2.3%, respectively.

Chant West director, Warren Chant says: "Members shouldn't be concerned about the negative return in January as growth funds have just come off the strongest calendar year return in 20 years. Already in February we've seen share markets rebound, and we estimate that the median growth fund is up 1.3% for the month so far (through to the 18th), which has more than offset the loss in January.

"The negative returns in January were partly due to weaker economic data out of the US and China. Additionally, the US Federal Reserve announced that it will pare back its bond purchasing programme by a further US\$10 billion per month. General concerns over inflationary pressure in emerging economies also weighed on share markets.

"How the US economy fares and how markets react to the Fed's tapering of its bond buying programme will continue to be key factors to watch. Investors will also be keeping an eye on the Chinese economy which, after a slight stutter, appears to have resumed a relatively stable growth pattern, even if the pace of growth has slowed a little from recent years. Another key indicator is whether the improvement in economic conditions in the Euro zone that we saw in the second half of 2013 continues. Domestically, consumer confidence and retail sales will remain good indicators of whether the benefits of interest rate cuts are filtering through."

Table 1 compares the median performance for each category in Chant West's multi-manager survey, ranging from All Growth to Conservative. The one year and three year returns reflect the strong performance of listed shares and property, so the more aggressive fund categories, which have a higher proportion invested in those assets, produced the best performance. The five year returns have improved considerably in recent months but the seven year returns are still weighed down by the 'GFC effect'.

Table 1: Diversified Fund Performance (Results to 31 January 2014)

Fund Category	Growth Assets (%)	1 Mth (%)	3 Mths (%)	FYTD (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)
All Growth	100	-1.9	1.3	11.6	17.4	9.1	11.5	2.6	7.0
High Growth	81 – 100	-1.3	1.5	10.1	15.4	9.0	10.8	3.2	7.4
Growth	61 – 80	-0.9	1.4	8.4	13.1	8.3	9.4	3.9	7.0
Balanced	41 – 60	-0.4	1.4	6.4	9.8	7.5	8.6	4.0	6.4
Conservative	21 – 40	0.0	1.2	4.7	7.1	6.5	7.2	4.6	6.0

Source: Chant West

Notes: Performance is shown net of investment fees and tax. It does not include administration fees or adviser commissions



Chart 1 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 1: Growth Funds – Rolling 5 Year Performance (Returns – %pa)

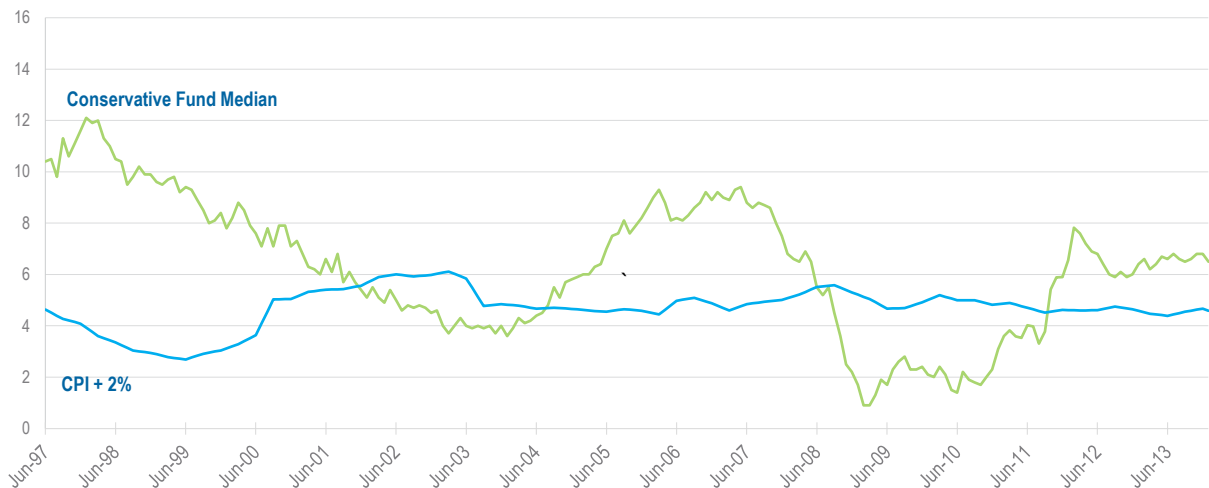


Source: Chant West

Note: The CPI figure for January 2014 is an estimate.

Chart 2 compares the performance of the lower risk Conservative category (21 to 40% growth assets) median with its typical objective of CPI plus 2% per annum over rolling three year periods. It shows that Conservative funds have also exceeded their objective in recent times.

Chart 2: Conservative Funds – Rolling 3 Year Performance (Returns – %pa)



Source: Chant West

Note: The CPI figure for January 2014 is an estimate.



Industry funds outperform master trusts in January

Industry funds also continue to hold the lead over the longer term. Over 10 years to the end of January, they outperformed master trusts by 0.6% per annum, returning an annualised 7.2% against 6.6%, as shown in Table 2.

Table 2: Diversified Fund Performance (Results to 31 January 2014)

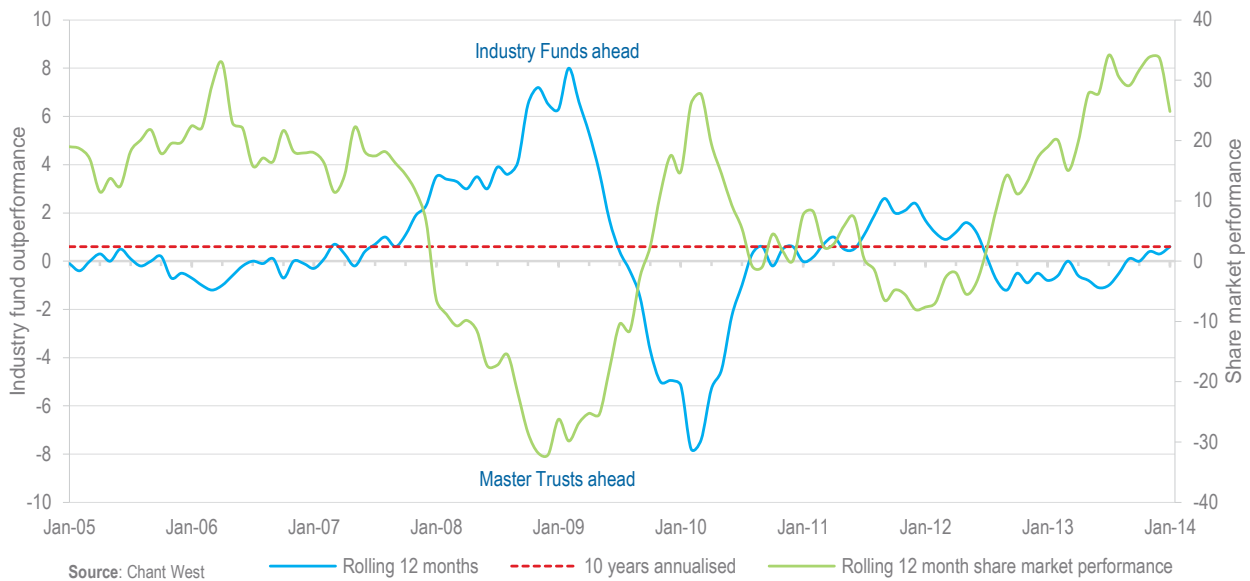
	1 Mth (%)	3 Mths (%)	FYTD (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)
Industry Funds	-0.8	1.6	8.5	13.1	8.2	9.1	4.1	7.2
Master Trusts	-1.0	1.2	8.2	12.5	8.0	10.2	3.2	6.6

Source: Chant West

Note: Performance is shown net of investment fees and tax. It does not include administration fees or adviser commissions

Chart 3 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, strong share markets slightly favour master trusts because of their higher weighting to listed shares and property.

Chart 3: Industry Fund Performance vs Master Trusts (Rolling 12m & 10y annualised relative performance – %pa)



Release Ends

About Chant West



Chant West Director, Warren Chant, or Investment Research Manager, Mano Mohankumar, are available to discuss this release. Please call Amanda Ferre 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.