



# Chant West Media Release

22 April 2014

## Super funds remain on track for a double digit year

After a strong first half, super fund performance was more subdued in the third quarter of the financial year. The three month return to the end of March was positive, nevertheless, with the median growth fund (61 to 80% allocation to growth assets) gaining 1%. This pushed the return for the nine months of the financial year to date to a very healthy 10.5%, raising expectations of a double digit return come the end of June.

Listed shares are the main drivers of growth fund performance, and they had a mixed quarter. Australian shares advanced 2%, while international shares gained 1% on a hedged basis. However, most funds have the majority of their international share exposure unhedged to currency movements and, with the Australian dollar rising from US\$0.89 to US\$0.93 over the quarter, these unhedged investments fell 2.4%. Listed property had a positive quarter, with Australian and global REITs returning 3% and 7.2%, respectively.

Chant West director, Warren Chant says: "The typical long-term return objective for a growth fund is to deliver inflation plus 3.5% per annum which, with long-term inflation running at just under 3%, translates to about 6.5%. The financial year to date return of 10.5% is comfortably ahead of that return objective. With just one quarter remaining in the financial year, there is a good chance that funds will deliver a fifth consecutive positive return. Any gain from here to the end of June would ensure that the annual result finishes in the double digits.

"Over the past four financial years we've seen consecutive positive returns of 10.4% in 2009/10, 9.2% in 2010/11, 0.5% in 2011/12 and 15.6% in 2012/13. Another year in the double digits, or close to it, would further diminish the memory of the GFC, while not fading it out completely. Since the GFC low point at the end of February 2009, growth funds have now advanced 66%. So not only have they recovered all their GFC losses, but they now stand 22% above their pre-GFC high reached at the end of October 2007.

"Over the quarter, manufacturing and employment data coming out of the US was largely positive and there were further signs of recovery in the Euro zone. The Chair of the US Federal Reserve, Janet Yellen, said during the quarter that the US economy has strengthened enough to allow continued cuts to monetary stimulus, and the Fed duly pared back its stimulus programme for the third consecutive month. While the news out of the US has been encouraging, political tensions in the Ukraine and slowing growth in China were negative factors that weighed on markets during the quarter."

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 March 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	-0.8	0.5	14.4	17.1	9.4	12.4	2.7	7.0
High Growth	81 – 100	-0.5	0.8	12.2	15.3	9.2	12.0	3.4	7.3
Growth	61 – 80	-0.3	1.0	10.5	13.2	8.5	10.2	3.9	7.0
Balanced	41 – 60	-0.2	1.1	7.9	9.7	7.5	9.3	4.1	6.4
Conservative	21 – 40	0.0	1.1	5.8	7.1	6.5	7.6	4.6	6.0

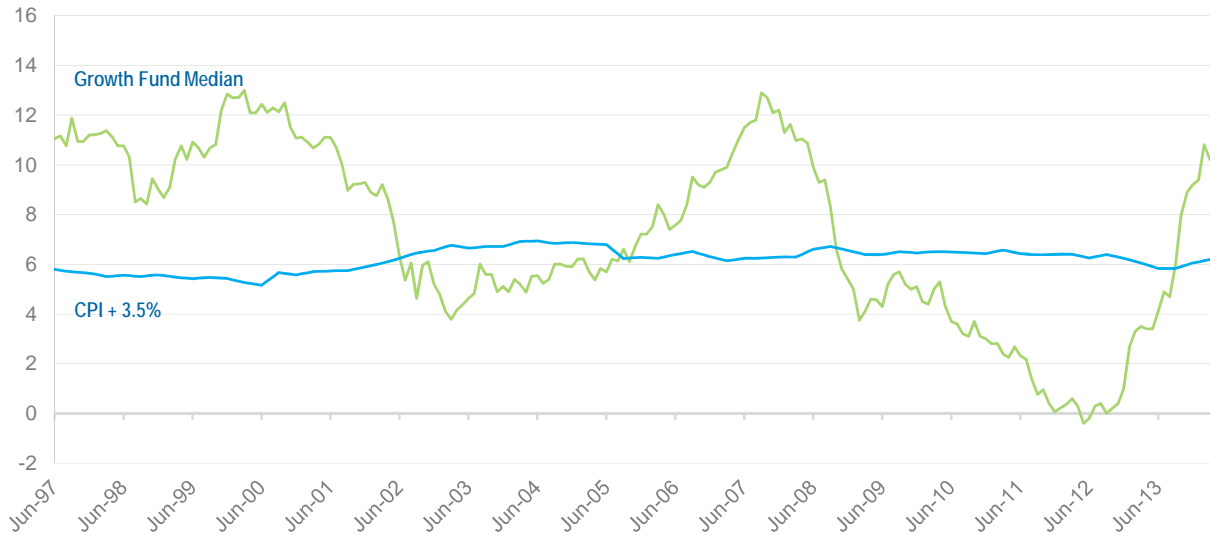
Source: Chant West

Note: 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, have seen the five year return rise sharply. So much so, it is now tracking well above that CPI plus 3.5% target.

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



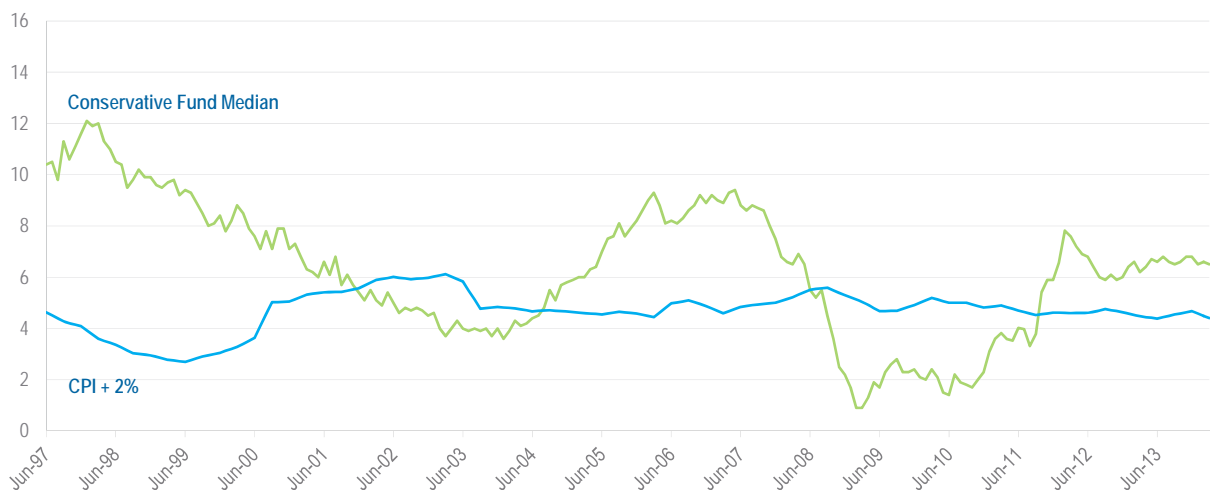
Source: Chant West

Source: Chant West

Note: The CPI figure for the March 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

Source: Chant West

Note: The CPI figure for the March 2014 is an estimate.



## Industry funds outperform master trusts over March quarter

Industry funds edged ahead of master trusts over the March quarter, returning 1.1% versus 0.8%, and they continue to hold a convincing lead over the longer term. Over 10 years to the end of March, they outperformed master trusts by 0.7% per annum, returning an annualised 7.2% against 6.5%, as shown in Table 2.

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

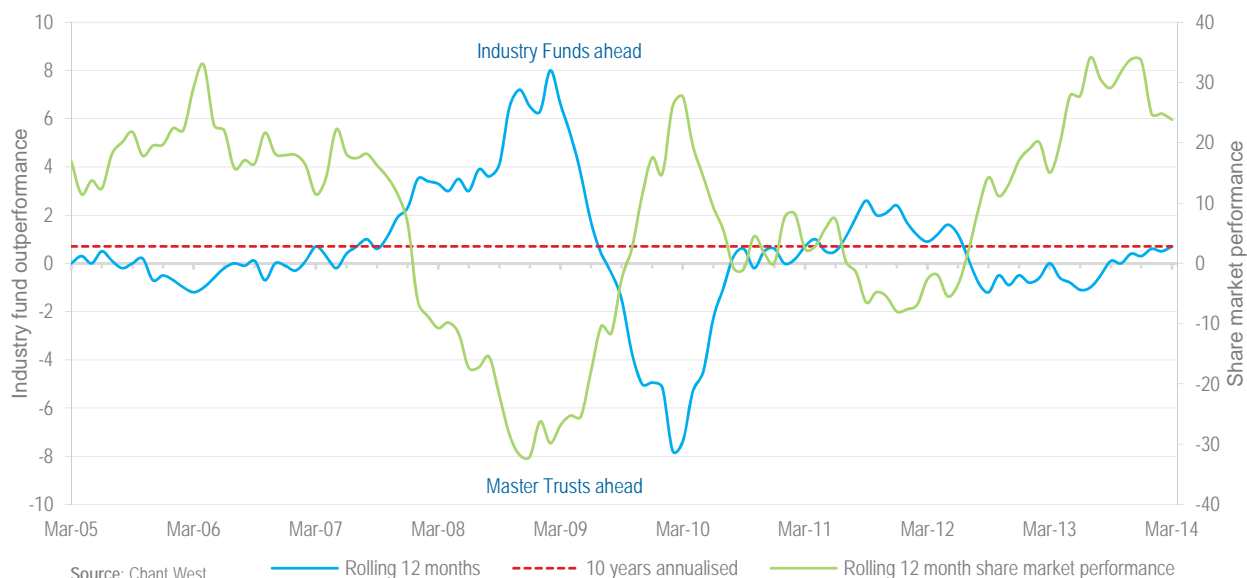
	1 Mth (%)	3 Mths (%)	FYTD (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)
Industry Funds	-0.2	1.1	10.6	13.3	8.5	9.7	4.1	7.2
Master Trusts	-0.4	0.8	10.0	12.6	8.3	11.2	3.3	6.5

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, historically, strong share markets have slightly favoured master trusts because of their higher weighting to listed shares. However, the difference in the allocation to listed shares between the two camps has narrowed in recent times. This coupled with the fact that industry funds have a significantly lower weighting to bonds which have been among the worst performing asset sectors in recent times has seen industry funds outperform master trusts more recently despite strong share market performance.

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](http://www.chantwest.com.au).