



Chant West Media Release

22 July 2014

Super funds hit double digits again in 2013/14

The 2013/14 financial year was another outstanding one for super funds, with strong share markets driving the median growth fund (61 to 80% invested in growth assets) up 12.8% – the second straight positive double digit return. The top-performing fund for the year was VicSuper which returned 15.8%, closely followed by Telstra Super. Even the worst-performing fund in the growth category gained a healthy 9.6%.

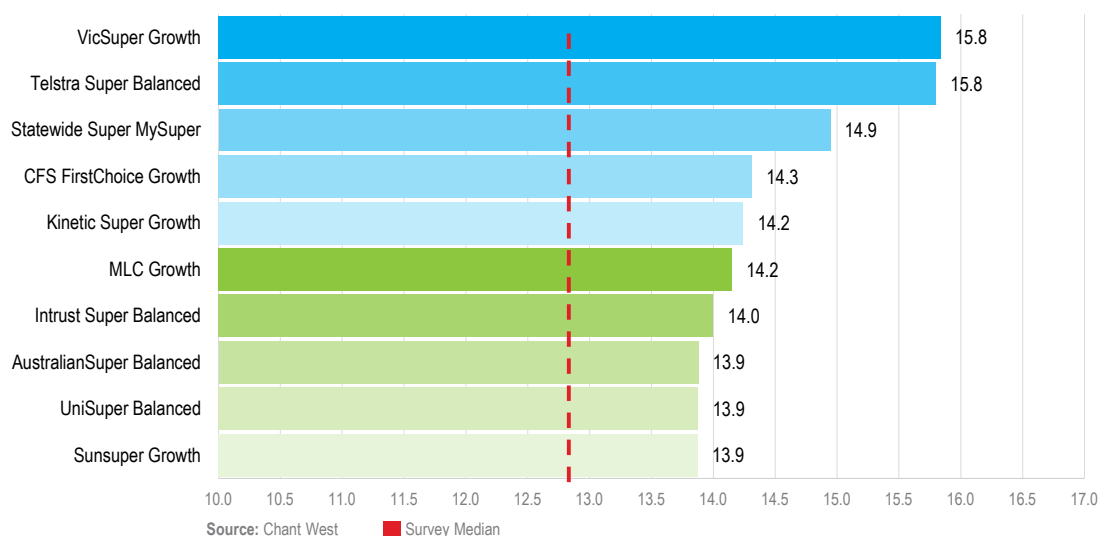
Chant West director, Warren Chant, says: “We’ve now seen five consecutive positive years – 10.4% in 2009/10, 9.2% in 2010/11, 0.5% in 2011/12, 15.6% in 2012/13 and 12.8% in the year just ended. That’s a cumulative increase of about 58%, or just under 10% per annum. It’s particularly impressive given that the typical longer-term objective for growth funds is to return between 3% and 4% a year above the inflation rate, which translates to an annual return of between 6% and 7%.

“The performance over the past few years has gone a long way towards erasing the dark memories of the GFC. From the low point in early 2009, growth funds have put on 70%. They now stand about 25% above their pre-GFC high achieved in October 2007. In fact all five of our fund risk categories – even the more aggressive All Growth and High Growth categories which suffered the most during the GFC, now sit comfortably above their pre-GFC levels.

“This strong bounce-back shows how resilient and forward-looking markets are, because it’s been achieved despite a patchy economic background. It all goes to show how dangerous it is to attempt to ‘time’ investment markets. If you lost your nerve during the GFC and switched to a more conservative strategy you’d have crystallised your losses and missed out on this robust recovery.”

The 2013/14 result was largely driven by very strong performance from listed shares, both domestically and overseas. All asset sectors contributed positive returns for the year, but the better performing funds were those that had a higher exposure to growth assets, particularly listed shares, and a lower exposure to cash and bonds, which were the lowest performers. [Chart 1](#) shows the top ten performing growth options over the year. The list comprises seven non-profit funds, two retail funds and one stand-alone company fund.

Chart 1: Top 10 Performing Growth Funds (1 Year to June 2014 – %)



Notes:

1. The top 10 is limited to options with assets of \$500 million or more.
2. Performance is shown net of investment fees and tax. It does 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. The one, three and five 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 seven year returns, however, are still weighed down by the ‘GFC effect’.

Table 1: Diversified Fund Performance (Results to 30 June 2014)

Fund Category	Growth Assets (%)	1 Mth (%)	3 Mths (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)
All Growth	100	-0.1	2.2	16.8	11.1	10.9	2.5	6.7
High Growth	81 – 100	0.1	2.1	14.9	10.6	10.5	3.2	6.9
Growth	61 – 80	0.2	2.1	12.8	9.6	9.6	3.7	6.9
Balanced	41 – 60	0.3	1.9	9.9	8.3	8.7	4.1	6.3
Conservative	21 – 40	0.4	1.7	7.7	6.8	7.3	4.6	5.9

Source: Chant West

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

Long-term return and risk objectives have been achieved

The results of the past two financial years have been exceptional, but Chant cautions members not to get too carried away. “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 that every year. What’s important is to know what your fund’s objectives are and whether they’re achieving them.

“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 data going back 22 years to July 1992, which is when compulsory super came in.

“As mentioned earlier, the typical return objective for a growth fund is to beat inflation over rolling five year periods by between 3% and 4% per annum. When we look back over the 22 year period, we find that the annualised return is 8%, the annual CPI increase is 2.6%, so the real return above inflation has averaged 5.4% per annum. So the return objective has been well and truly met.

“That’s borne out by Chart 2, which compares the growth category median with an average return objective for funds in that category (CPI plus 3.5% per annum after investment fees and tax over rolling five year periods).

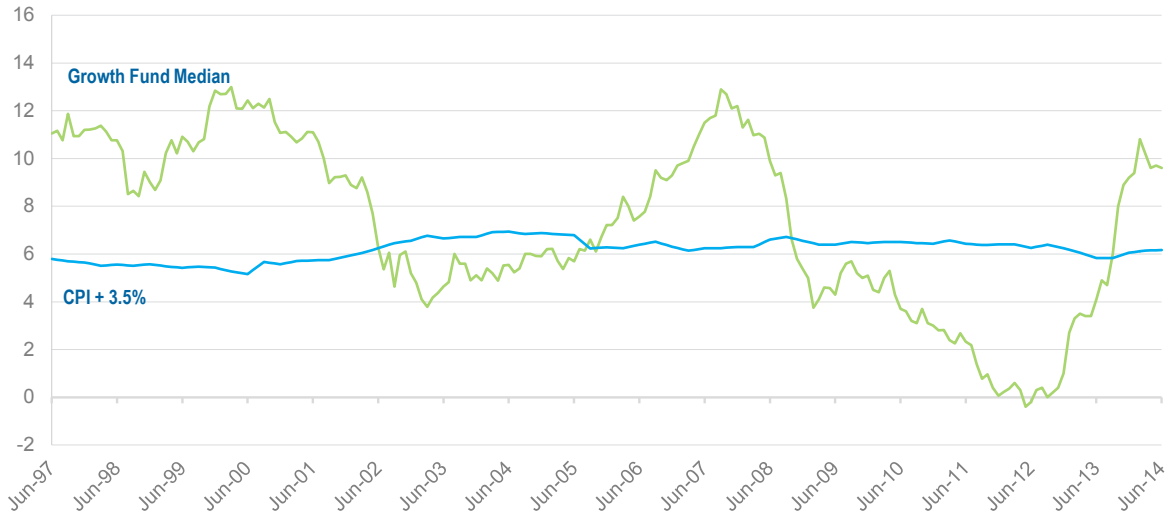
“Up until the GFC, the median fund outperformed the target most of the time, and often by a substantial margin. The GFC brought that to an abrupt halt, and led to the median fund dipping below the target line for several years. Now, with the GFC period having worked its way out of the calculation, we have seen the five year return rise sharply so that once again it is tracking well above that CPI plus 3.5% target. Overall, even including the extraordinary severity of the GFC, funds have managed to keep their returns above the target line more often than not, and that’s a very creditable achievement.

“In addition to their return objectives, most funds also set themselves a risk objective. Typically, for a growth fund, this is to post a negative return no more often than once in every five years on average. Chart 3 plots the year by year performance of the median growth fund over the complete 22 years of compulsory super. In that time, there were just three years when returns were negative. That averages out to less than one year in seven, so that objective was also well and truly met.



“The bottom line is that, over the 22 years in which we’ve had compulsory super, Australia’s major funds have done what they set out to do. That’s a very important message that needs to be hammered home, because it should give people confidence in super. And if people have confidence in super it will encourage them to take more interest in it and really get engaged with what is – or will be – their biggest financial asset.”

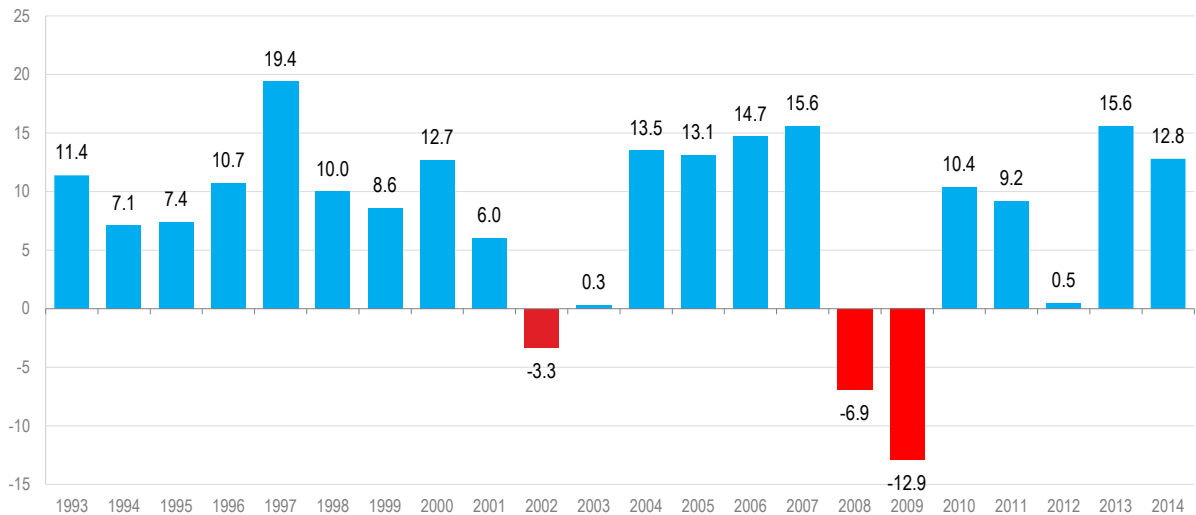
Chart 2: Growth Funds – Rolling 5 Year Performance (Returns – % pa)



Source: Chant West

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

Chart 3: Financial Year Performance (Median returns for growth funds – % pa)



Source: Chant West



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, because those are the dominant sectors in terms of where they allocate their money.

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 30 June 2014)

	1 Mth (%)	3 Mths (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)
Australian Shares	-1.4	0.9	17.3	9.9	11.0	2.1	8.9
International Shares (Hedged)	1.5	4.5	21.9	13.1	14.6	2.9	6.5
International Shares (Unhedged)	0.4	3.0	20.4	16.8	11.5	1.8	3.9
Private Equity	2.5	7.1	22.3	11.8	10.8	5.1	-
Australian Listed Property (REITs)	3.3	9.2	11.1	15.2	14.3	-4.9	2.2
Global Listed Property (REITs)	1.2	8.4	16.3	13.9	22.7	3.3	-
Australian Unlisted Property	1.4	2.5	9.4	9.3	8.4	6.0	9.0
Global Listed Infrastructure (Hedged)	3.3	7.6	24.6	14.4	13.8	5.0	-
Unlisted Infrastructure	1.0	2.8	9.3	9.1	9.6	6.4	-
Australian Bonds	0.8	3.1	6.1	7.0	6.9	7.1	6.5
International Bonds (Hedged)	0.5	2.6	7.8	7.9	8.4	8.6	7.8
Hedge Funds	1.0	1.9	8.8	5.2	7.8	3.9	6.4
Cash	0.2	0.7	2.7	3.6	3.9	4.6	5.0

Source: Chant West

The key points to note for the 2014 financial year are:

- Of the traditional assets sectors, international shares was the strongest performer, surging 21.9% in hedged terms. The performance in unhedged terms was slightly lower at 20.4% due to the appreciation of the Australian dollar over the year from US\$0.89 to US\$0.93
- Australian shares also had an excellent year, returning 17.3%
- After an uninspiring first six months, listed property rebounded strongly in the second half of the financial year to finish the year in double digits, with Australian REITs gaining 11.1% and global REITs up 16.3%
- Unlisted property rose 9.4%, while unlisted infrastructure returned 9.3%. Global listed infrastructure had a particularly strong year, delivering 24.6%.
- The other so-called 'alternative asset' sectors, private equity and hedge funds, also made positive contributions of 22.3% and 8.8%, respectively. However, we reiterate that the private return equity returns relate to one particular fund
- Defensive asset sectors also delivered positive returns, albeit lower than growth assets. Australian bonds, international bonds and cash gained 6.1%, 7.8% and 2.7%, respectively.



Lightening up on bonds and cash proves a winner for industry funds

Industry funds edged out retail funds over the year, returning 13.1 % versus 12.7%. This was mainly because within their defensive assets they have a much lower exposure to bonds and cash (15% versus 24%), which were the worst performing sectors. Industry funds also hold the advantage over the longer term, having returned 7.1% per annum against 6.3% for retail funds over the ten years to June 2014, as shown in Table 3.

Table 3: Performance by Industry Segment (Results to 30 June 2014)

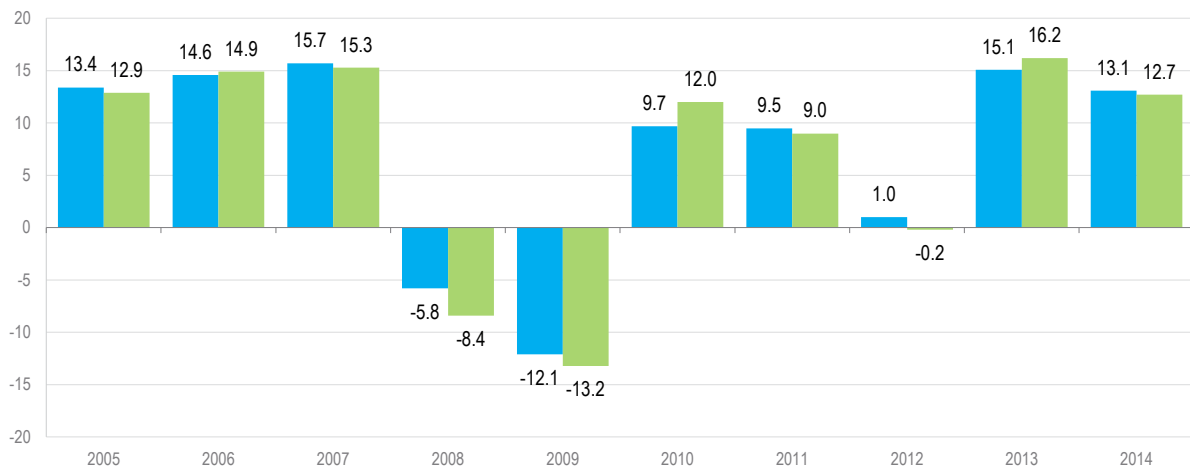
	1 Mth (%)	3 Mths (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)
Industry Funds	0.3	2.2	13.1	9.5	9.5	3.8	7.1
Retail Funds	0.0	2.2	12.7	9.6	9.8	3.2	6.3

Source: Chant West.

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

Chart 4 compares the performance of the two segments over each of the past ten years.

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



Source: Chant West

Chant says: “Over the longer term, industry funds have outperformed retail funds largely because, as a group, they tended to have lower allocations to listed shares during periods when shares underperformed. That historical difference in allocation no longer applies, but equally important is that they have always had higher allocations to unlisted assets such as private equity, unlisted property and unlisted infrastructure (currently 19% versus 5%), which have performed well for them. Industry funds have also been more prepared to shift away from their longer-term target asset allocations to take advantage of mispricing or to preserve capital. Overall, those medium-term shifts have had a positive effect on their performance.

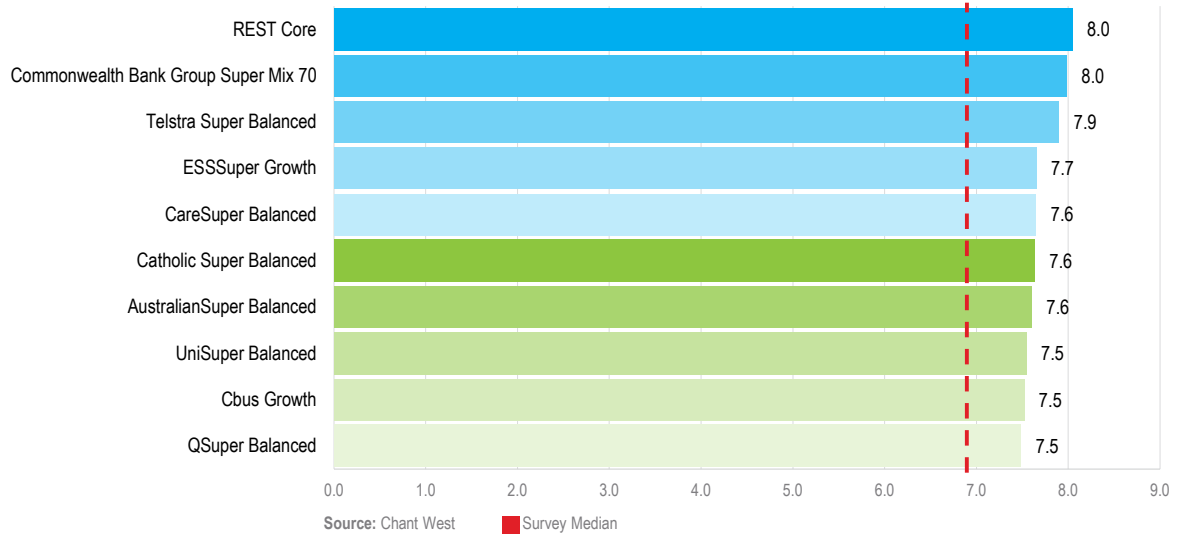
“Over the longer term, the asset allocation policies of industry funds have served them very well. Those allocations to unlisted assets have added to performance and reduced volatility, or risk. They do mean slightly higher investment costs, but those extra costs have been more than justified by the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

“Retail funds 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 appetite for alternative assets, has seen them close the gap on their industry fund competitors. However, the recent introduction of MySuper has undone a lot of this good work. Mainly in an effort to reduce fees, retail funds have structured their new MySuper default options with a higher component of passive management and lower exposure to alternatives. We believe this will prove detrimental to them and their members in the long run.”



Chart 5 shows the top 10 performing funds over ten years. As has been the case for many years, the list is dominated by industry funds.

Chart 5: Top 10 Performing Growth Funds (10 Years to June 2014 – % pa)



Notes:

1. The top 10 is limited to options with assets of \$500 million or more.
2. Performance is shown net of investment fees and tax. It does before administration fees and adviser commissions.
3. Catholic Super's return is interim.

Release Ends

About Chant West



Chant West Director, Warren Chant, is available to discuss this release. Please call Warren or 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.