



Chant West Media Release

18 September 2014

Global exposure helps maintain positive momentum

Super funds continued their positive start to the new financial year with the median growth fund (61 to 80% growth assets) up 1% for the month of August. This brings the return for the first two months of the financial year to 2.2%.

The August result came on the back of strong performance from listed shares and property, especially overseas. These sectors are the main drivers of growth fund performance because they account for about 57% of the average fund's total investments. Australian shares were up 0.6%, while international shares rose 2.7% in hedged terms and 1.6% in unhedged terms. Australian listed property gained 1.7%, while global listed property was up 2.7%.

Chant West director, Warren Chant says: "Funds continue to deliver on their promises at a time when there's some debate over the efficiency of our superannuation system. That's because growth funds, in which most Australians have their super money, are well diversified across growth and defensive assets, traditional and alternative, in Australia and overseas, and benefit from the skills of specialised investment managers.

"Over the 22 plus years since the introduction of compulsory super, growth funds on average have gained 8% per annum. That's well ahead of their typical return objective which is to beat inflation by 3 to 4%, which given the inflation rate translates to 6 to 7% per annum. So fund members are getting what they've been promised despite major setbacks such as the 'tech wreck' of the early 2000s and, more recently, the global financial crisis.

"In August, we saw signs that the domestic economy is slowing. Second quarter GDP growth came in lower than the previous quarter, so it's no surprise that the Reserve Bank kept the interest rate on hold at 2.5%, where it has been since August 2013. Company profit results have come in at or above expectations, on average, but this has largely been as a result of cost cutting rather than sales or margin expansion. The market is starting to ask 'Where to from here for earnings growth?' and share prices have started to reflect that uncertainty.

"Overseas, the US economy continues to show signs of improvement. However, concerns over growth in the Euro zone have led to the European Central Bank cutting its interest rate to 0.05% and announcing that it will commence an asset purchase programme to bolster lending, growth and inflation. Meanwhile China's economy has been jittery, and any further signs of a slowdown will have a flow-on effect for Australia, given our strong trading links."

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, have produced the best performance. The seven year returns, however, are still weighed down by the 'GFC effect'.

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

Fund Category	Growth Assets (%)	1 Mth (%)	FYTD (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)	15 Yrs (% pa)
All Growth	100	1.1	2.8	13.8	14.5	9.3	2.8	7.1	5.7
High Growth	81 – 100	1.0	2.5	12.8	13.1	9.2	3.5	7.0	6.4
Growth	61 – 80	1.0	2.2	11.3	11.6	8.6	4.0	7.0	6.4
Balanced	41 – 60	0.8	1.7	9.1	9.4	7.7	4.3	6.4	5.9
Conservative	21 – 40	0.6	1.3	7.3	7.4	6.8	4.7	6.0	5.5

Source: Chant West

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



Comparing Apples with Apples.



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 in recent years, combined with the GFC period having worked 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

Note: The CPI figures for July and August 2014 are estimates.

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 figures for July and August 2014 are estimates.



Industry segments neck and neck in August

Industry funds and retail funds performed broadly in line with each other in August, returning 1% and 0.9%, respectively. However, industry funds continue to hold a convincing lead over the longer term. Over 15 years to the end of August, they outperformed retail funds by 1% per annum, returning an annualised 7% against 6%, as shown in [Table 2](#).

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

	1 Mth (%)	FYTD (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)	15 Yrs (% pa)
Industry Funds	1.0	2.1	11.5	11.6	8.6	4.1	7.2	7.0
Retail Funds	0.9	2.3	11.0	11.6	8.4	3.5	6.5	6.0

Source: Chant West

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

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.