



Chant West Media Release

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Another positive year despite patchy global economy

After exceptional returns of 12.8% in 2012 and 17.2% in 2013, super funds look set to deliver a more modest result in 2014. Following a 0.8% gain in November, the median growth fund (61 to 80% growth assets) had notched up a total return of 7.1% for the first 11 months of the year. While the first half of December has been negative, the median return still stands at an estimated 6%.

Chant West director, Warren Chant says: "With the end of the year fast approaching, and despite share market nervousness continuing into December, it's almost certain that we'll see a positive return – most likely in the range of 5 to 8% barring anything exceptional occurring. This would be broadly in line with the typical growth fund return objective of about 3% to 4% per annum above inflation (about 6 to 7% in today's low inflation climate).

"If that happens it should be seen as a solid result. It would mean that members' savings will have grown at about double the rate of increase in the cost of living and well ahead of the growth in wages. In a way, it would also be a welcome return to normality after a decade in which we've had six annual returns in double digits and two negative years, including the 21.5% shock loss in 2008 at the height of the GFC."

Listed share markets, which are the main drivers of growth fund performance, had a mixed month in November. Australian shares retreated 3.2%, but international shares were up 3.1% in hedged terms and 5.3% in unhedged terms due to the depreciation of the Australian dollar (down from US\$0.88 to US\$0.85 over the month). Australian and international listed property returned 0% and 2.7%, respectively.

As we approach 2015, most of the debate among investment experts is centred on interest rates and economic growth prospects and the story varies from region to region. In Australia, the official interest rate, which has been on hold at 2.5% for 16 months, is now being tipped to drop even lower next year as the Reserve Bank looks to stimulate the non-resource sectors of the economy.

In the US, meanwhile, the economy continues to show signs of improvement and the debate is mainly about the timing of an interest rate rise. The story in Europe isn't nearly as positive, however. There is a serious risk that the whole Eurozone region may be slipping back into recession and this has led the European Central Bank to signal that it may eventually be forced into a quantitative easing programme of its own, similar to that just ended in the US. While the Chinese share market had an exceptional month in November, the state of its economy isn't nearly as strong and authorities are looking at ways to keep the desired growth pattern on track.

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 30 November 2014)

Fund Category	Growth Assets (%)	1 Mth (%)	CYTD (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)	15 Yrs (% pa)
All Growth	100	1.0	7.4	9.7	15.7	9.0	2.8	6.7	5.6
High Growth	81 – 100	0.9	7.4	9.2	13.9	9.1	3.7	6.9	6.8
Growth	61 – 80	0.8	7.1	8.7	12.3	8.4	4.0	6.7	6.8
Balanced	41 – 60	0.7	6.3	7.5	9.8	7.5	4.4	6.2	6.0
Conservative	21 – 40	0.6	5.6	6.4	7.8	6.7	4.7	5.8	5.7

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 in recent years, combined with the GFC period having worked its way out of the calculation, have seen the five year return rise sharply. For the past 18 months it has been 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 October and November 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 October and November are estimates.



Industry segment performance was line ball in November

Retail funds and industry funds performed in line with each other in November, returning 0.8%. However, industry funds continue to hold a convincing lead over the longer term. Over 15 years to the end of November, they outperformed retail funds by 1.1% per annum, returning an annualised 6.9% against 5.8%, as shown in Table 2.

Table 2: Diversified Fund Performance (Results to 30 November 2014)

	1 Mth (%)	CYTD (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)	15 Yrs (% pa)
Industry Funds	0.8	7.3	8.9	12.2	8.7	4.3	6.9	6.9
Retail Funds	0.8	7.0	8.4	12.3	8.3	3.6	6.2	5.8

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 40 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.