



Chant West Media Release

20 July 2015

Super funds in the black for the sixth straight year

Despite the sharemarket turmoil in June resulting from Greece's debt crisis, super funds finished the 2014/15 financial year well in the black with the median growth fund returning 9.8% – the sixth straight positive annual return. The top-performing fund for the year was QSuper which returned 12.3%. Even the worst-performing fund in the growth category gained 6.2%. Growth funds have 61 to 80% of their investments in growth assets and are the ones in which the great majority of Australians are invested.

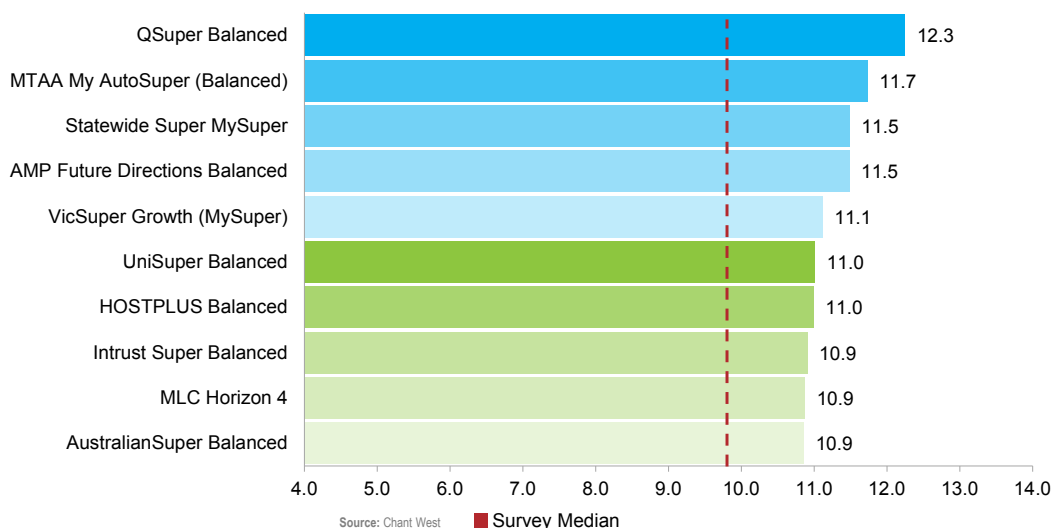
Chant West director, Warren Chant says: "This year's return of 9.8% is comfortably ahead of the typical longer-term return objective for the growth category, which is about 6% to 7%. The result comes on the back of returns of 15.6% in 2012/13 and 12.8% in 2013/14, making an average of 12.7% per annum over the past three years. While the median didn't quite make it, several individual funds will have actually posted a third consecutive double digit return. Growth fund members who kept their nerve and didn't switch investment options have seen their accounts make a full recovery – and more – from the depths of the global financial crisis. Since the GFC low point at the end of February 2009, growth funds have now delivered an impressive 88%, putting them 37% above their pre-GFC high of October 2007.

"All asset sectors delivered positive returns for the 2014/15 financial year, but some were much stronger than others. The better performing funds were generally those that maintained a relatively high exposure to foreign currency (because of the decline in value of the Australian dollar), Australian listed property and private equity, and a lower exposure to Australian shares, the broader bond market, hedge funds and cash.

"While we can generalise about the allocations that worked best, it doesn't mean that all top funds followed the same formula. Interestingly, QSuper's Balanced option was the top performer despite having a relatively low allocation to foreign currency and Australian listed property. Its success was driven mainly by strong returns from its investment in long-duration bonds, to which most other funds have little or no exposure, and its unlisted assets including infrastructure, property and private equity. It also benefited from a lower than average allocation to Australian shares."

Chart 1 shows the top ten performing growth options over the year.

Chart 1: Top 10 Performing Growth Funds (1 Year to June 2015 – %)



Notes:

1. The top 10 is limited to options with assets of \$1 billion or more.
2. Performance is shown net of investment fees and tax. It is 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 in recent years, so the more aggressive fund categories, which have a higher proportion invested in those assets, have produced the best performance. The seven year returns continue to improve as the remaining months of the GFC period steadily drop out of the calculation.

Table 1: Diversified Fund Performance (Results to 30 June 2015)

Fund Category	Growth Assets (%)	1 Mth (%)	Qtr (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)	15 Yrs (% pa)
All Growth	100	-3.3	-2.2	12.4	16.7	11.2	6.3	6.6	5.6
High Growth	81 – 100	-2.4	-1.5	11.3	14.8	10.6	6.4	6.7	6.1
Growth	61 – 80	-2.0	-1.3	9.8	12.8	9.6	6.2	6.6	6.6
Balanced	41 – 60	-1.4	-1.0	7.8	10.1	8.1	6.0	6.0	5.8
Conservative	21 – 40	-0.9	-0.5	6.1	7.4	6.7	5.5	5.6	5.6

Source: Chant West

Note: Performance is shown net of investment fees and tax. It is before administration fees and adviser commissions.

Funds have done what they set out to do

Although we've now seen six consecutive positive financial year returns averaging nearly 10%, Chant cautions members not to get too carried away. "You've always got to remember that superannuation is for the long term. Most people working today will eventually convert their super into income streams, so that money will stay in the super system long after they retire. It really is a lifetime investment, and there will be good times and bad times along the way. The returns of the past few years have been unusually good, but you shouldn't start to think of them as normal. What's important is to know what your fund's objectives are and whether they're achieving them.

"To do that, you really need to look back as far as you can, and certainly well past the GFC. We now have data going back 23 years to July 1992, which is when compulsory super came in. The typical return objective for a growth fund is to beat inflation over rolling five year periods by 3% to 4% per annum. When we look back over the 23 year period, we find that the annualised return is 8.1% and the annual CPI increase is 2.6%, so the real return above inflation has averaged 5.5% per annum. That means the return objective has been well and truly met.

"That's borne out visually in [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).

"Until the GFC hit, the median fund outperformed the target most of the time. The GFC brought that to an abrupt halt, and the median fund dipped below the target line for several years. Now, with the GFC period having worked its way out of the calculation, we've seen the five year return rise sharply so that once again it is tracking well above the target line.

"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 full 23 year period. In that time, there have been three years when returns were negative. That averages out to less than one year in seven, so the risk objective has also been met.

"So the message is that, over a very long period, Australia's major super funds have done what they set out to do. That should give people confidence in super as a good place to have their money invested, and encourage them to take more interest in it."



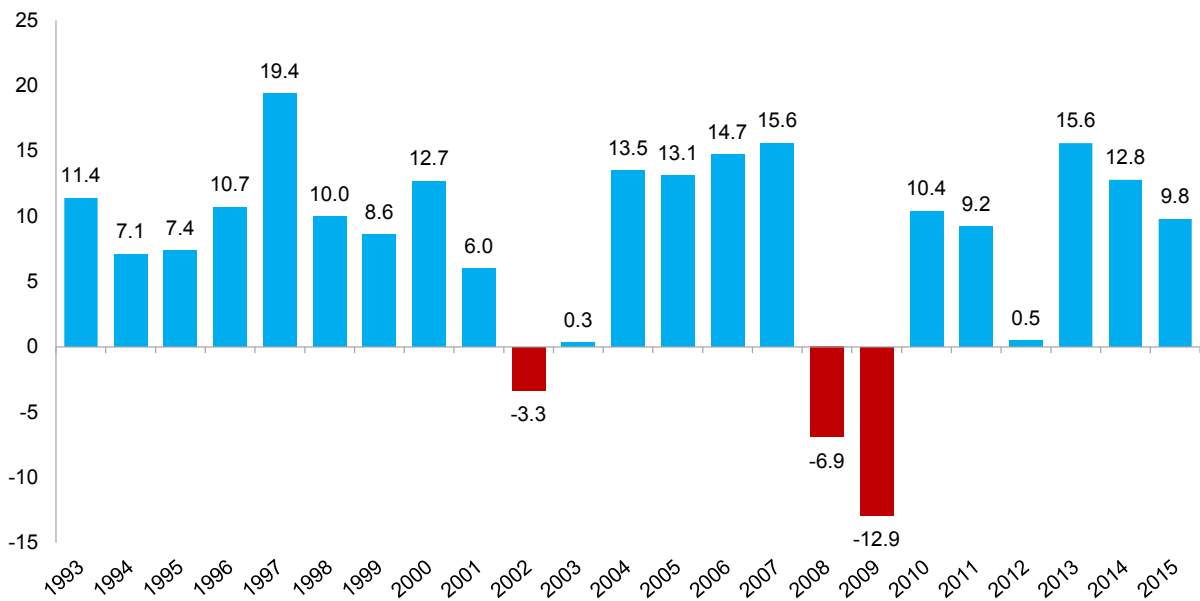
Chart 2: Growth Funds – Rolling 5 Year Performance (Returns – % pa)



Source: Chant West

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

Chart 3: Growth Funds – Financial Year Returns (%)



Source: Chant West

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



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 sectors where they allocate most of 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 2015)

	1 Mth (%)	Qtr (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)	15 Yrs (% pa)
Australian Shares	-5.3	-6.5	5.6	14.7	9.5	5.1	6.9	7.8
International Shares (Hedged)	-2.9	-0.5	8.5	17.1	13.9	6.7	6.4	3.0
International Shares (Unhedged)	-2.7	-0.1	25.2	26.1	15.4	8.8	6.3	1.7
Private Equity	1.4	6.1	20.0	15.7	13.2	7.6	9.6	-
Australian Listed Property	-4.0	-2.3	20.2	18.3	14.2	4.4	2.3	6.5
Global Listed Property	-4.4	-7.0	9.1	14.4	15.1	6.7	6.8	-
Australian Unlisted Property	1.8	3.0	10.6	9.7	9.7	5.4	8.8	9.6
Global Listed Infrastructure (Hedged)	-4.7	-3.5	6.7	16.8	16.7	-	-	-
Unlisted Infrastructure	2.0	2.1	10.1	10.3	10.5	6.7	8.6	-
Australian Bonds	-0.9	-2.0	5.6	4.8	6.4	7.3	6.3	6.4
International Bonds (Hedged)	-1.1	-1.7	5.6	6.0	7.3	8.2	7.2	7.9
Cash	0.2	0.6	2.6	2.9	3.6	3.9	4.7	4.9

Source: Chant West

The key points to note for the 2014/15 financial year are:

- Unhedged international shares was the strongest performing asset sector with a return of 25.2%. However about two thirds of this was due to the depreciation of the Australian dollar (down from US\$0.94 to US\$0.77) because the return in hedged terms, which strips out the currency effect, was just 8.5%. We estimate that currency contributed about 3% to the typical growth fund return over the year.
- Australian listed property was also one of the stand-out performers with a return of 20.2%. Global listed property returned 9.1%.
- Unlisted property rose 10.6%, while unlisted infrastructure returned 10.1%. Global listed infrastructure was also up but by a more modest 6.7%.
- Australian shares was the worst performer among the traditional growth sectors, with a return of 5.6%. Private equity was the strongest performing alternative asset sector with a return of 20%, while hedge funds only yielded a small positive return of 3.3%.
- Defensive asset sectors also delivered positive returns, albeit lower than most growth assets. Australian bonds, international bonds and cash gained 5.6%, 5.6% and 2.6%, respectively.



Industry funds ahead of retail funds over the year

Industry funds outperformed retail funds over the year, returning 10.2% versus 9.6%. Industry funds also hold the advantage over the longer term, having returned 6.9% per annum against 5.8% for retail funds over the 15 years to June 2015, as shown in Table 3. However, the performance of the two segments over periods of ten years and less is closer.

Table 3: Performance by Industry Segment (Results to 30 June 2015)

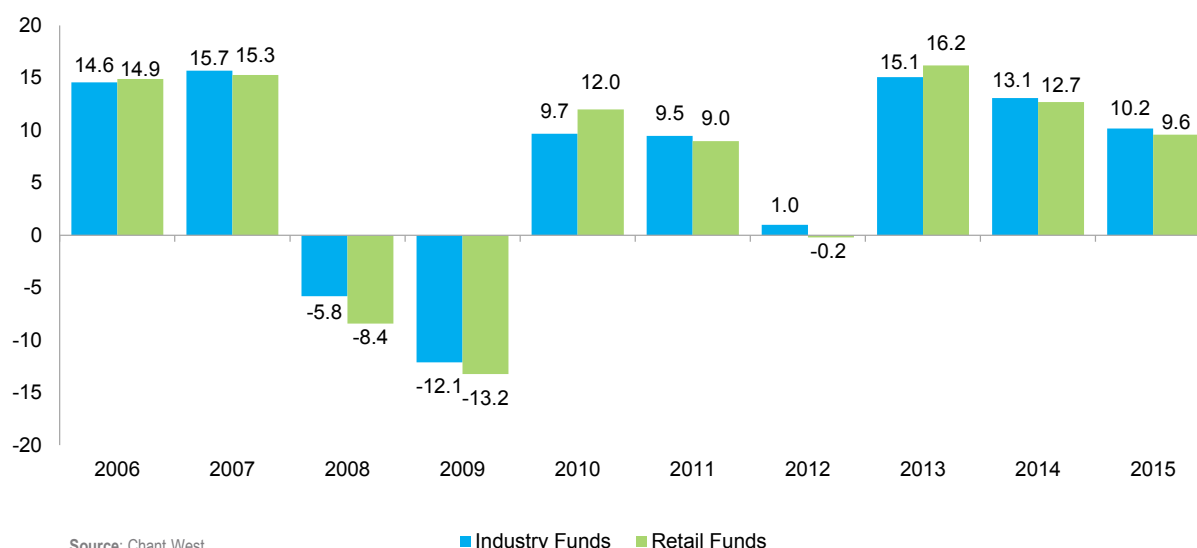
	1 Mth (%)	Qtr (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)	15 Yrs (% pa)
Industry Funds	-1.8	-0.9	10.2	13.1	9.7	6.3	6.8	6.9
Retail Funds	-2.3	-1.9	9.6	12.6	9.5	6.1	6.2	5.8

Source: Chant West

Note: Performance is shown net of investment fees and tax. It is before administration fees and adviser commissions.

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

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



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. While that historical difference in allocation no longer applies, they have also had higher allocations to unlisted assets such as private equity, unlisted property and unlisted infrastructure which have performed well for them. That difference still applies, with industry funds currently investing 20% in these sectors against 4% for retail funds.

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

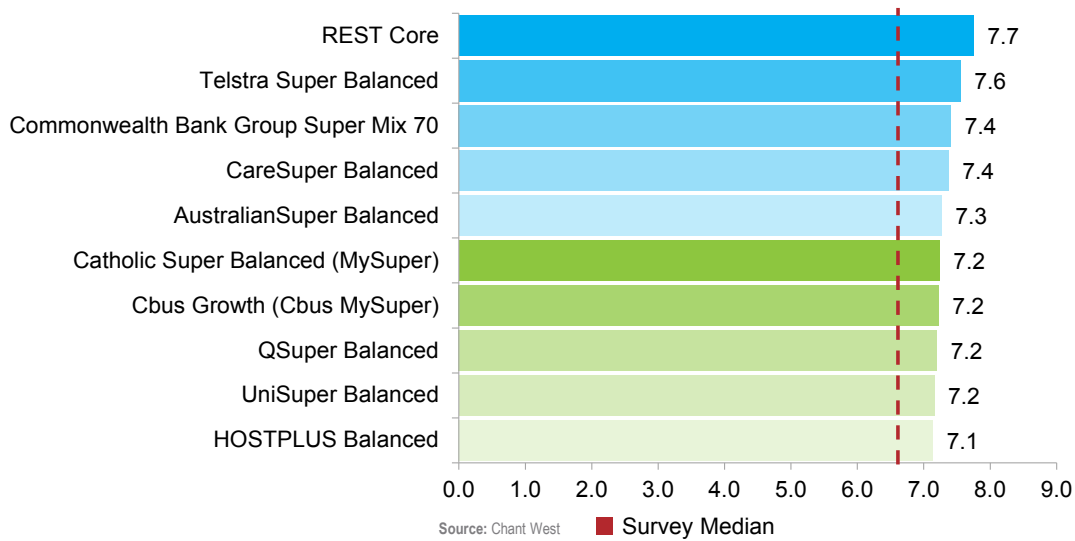
“Industry funds have also been more prepared to shift away from their longer-term target asset allocations to take advantage of mispricing or to preserve capital. Overall, those medium-term shifts have had a positive effect on their performance. Retail funds have followed suit in recent years, with a greater appetite for alternative assets and a more active approach to asset allocation which has seen them narrow the performance gap.



“Sadly, however, the introduction of MySuper has undone a lot of this good work. It has switched a lot of the focus to costs, and most retail funds have responded by structuring their MySuper default options with more passive management and less exposure to alternatives. That’s primarily designed to reduce fees, which is not in itself a bad thing. The problem is that we believe it will also have the effect of reducing returns, and so will prove detrimental to 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 which account for seven of the 10 places. The other three places are occupied by QSuper, which is a public sector fund and the stand-alone funds for employees of Commonwealth Bank and Telstra.

Chart 5: Top 10 Performing Growth Funds (10 Years to June 2015 – % pa)



Notes:

1. The top 10 is limited to options with assets of \$1 billion or more.
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Release Ends

About Chant West



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