



# Chant West Media Release

19 October 2016

## A solid quarter to start FY17, but markets still nervous ahead of US interest rate and election decisions

After a tumultuous finish to 2015/16, super funds have got off to a good start in the new financial year. Over the September quarter, the median growth fund (61 to 80% allocation to growth assets) gained a solid 3.1%.

Listed share markets, which are the main drivers of growth fund returns, had a strong quarter. Australian shares gained 5.2% while international shares were up 4.8% on a hedged basis but, due to a stronger Australian dollar (up from US\$0.74 to US\$0.77), the return in unhedged terms was limited to 2%. Listed property was mixed, with Australian REITs down 1.9% over the quarter but global REITs up 1.3%.

Chant West director, Warren Chant says: "This was a solid quarter overall but the performance was far from consistent. Of the 3.1% gain, 2.7% was achieved in July. Since then we've had two months of fairly flat returns, and that's mainly because investors are preoccupied about US interest rates and when the next rate hike will be.

"This nervous mood is likely to continue while there's so much uncertainty about global interest rates, the outcome of the US election and the downstream consequences of Brexit. Funds are finding it hard to identify undervalued assets that will deliver real returns, and this is compounded by the pressure they're under to reduce investment fees. They're going to find it tough to meet their long-term objectives, and members need to remain patient in the face of returns that are likely to be lower than what they're used to.

"In the US, Federal Reserve Chair, Janet Yellen has said for the past two months that the arguments for another interest rate hike have strengthened. However, after the 'no change' decision in September, markets still aren't convinced that a rise in December is a certainty. While this timing issue is dominating market sentiment, far more important will be the pace at which rates are increased over the next few years.

"Markets in the Eurozone were helped by a strong earnings season which saw a surprising number of companies exceeding market expectations. However, economic growth remains lacklustre. In Britain, there's still no clarity about what the Brexit vote will lead to in the medium to long term, but the political backdrop has stabilised somewhat since Theresa May became Prime Minister. Additionally, the Bank of England launched a series of monetary easing measures.

"Closer to home, there remains concern over the pace of growth of the Chinese economy where further monetary easing is expected. Meanwhile, back in Australia, the RBA kept interest rates on hold at 1.5%, with a further cut this year remaining a possibility."

Table 1 shows the median performance for each category in Chant West's multi-manager survey. Returns for the September quarter ranged from 1.7% for the lowest risk Conservative category to 4.4% for the highest risk All Growth category.

Table 1: Diversified Fund Performance (Results to 30 September 2016)

Fund Category	Growth Assets (%)	1 Mth (%)	3 Mths (%)	FYTD (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)	15 Yrs (% pa)
All Growth	100	-0.2	4.4	4.4	9.2	8.8	12.4	8.5	5.0	6.6
High Growth	81 – 100	0.1	3.8	3.8	9.3	8.7	11.5	8.2	5.6	7.4
Growth	61 – 80	0.1	3.1	3.1	8.1	8.0	10.2	7.7	5.5	7.2
Balanced	41 – 60	0.1	2.4	2.4	6.9	6.8	8.4	6.9	5.3	6.1
Conservative	21 – 40	0.1	1.7	1.7	5.9	5.7	6.7	6.2	5.2	5.9

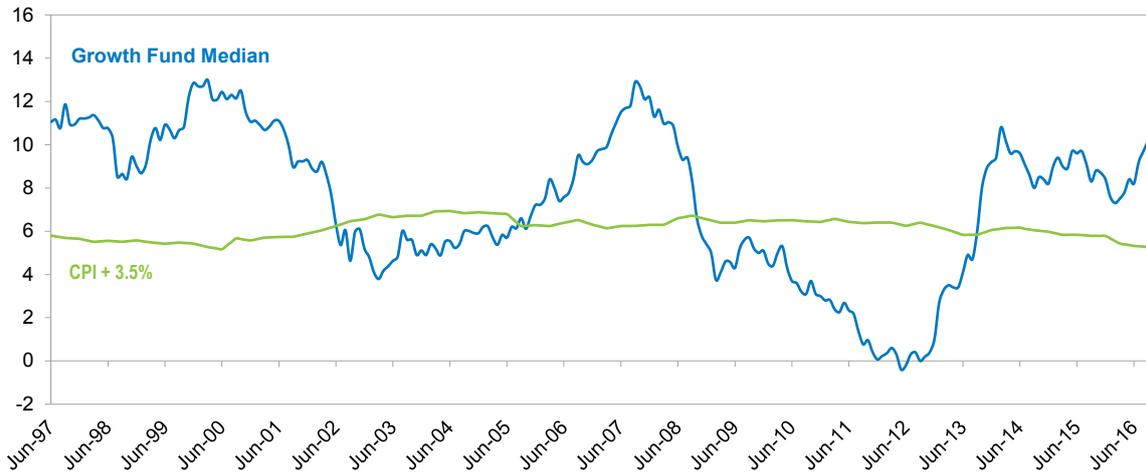
Source: Chant West

Note: Performance is shown net of investment fees and tax. It is before administration fees and 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 healthy returns in recent years, combined with the GFC period having worked its way out of the calculation, have seen the five year return continue to track well above that CPI plus 3.5% target.

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



Source: Chant West

Note: The CPI figure for the September 2016 quarter 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 years.

Chart 2: Conservative Funds – Rolling 3 Year Performance (Returns – % pa)



Source: Chant West

Note: The CPI figure for the September 2016 quarter is an estimate.



## Industry funds outperform retail funds over September quarter

Industry funds outperformed retail funds over the quarter, returning 3.2% versus 2.9%. Industry funds also continue to hold the advantage over the longer term, having returned 5.8% per annum against 5.1% for retail funds over the ten years to September 2016, as shown in [Table 2](#).

**Table 2: Performance by Industry Segment (Results to 30 September 2016)**

	1 Mth (%)	3 Mths (%)	FYTD (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)
Industry Funds	0.1	3.2	3.2	9.2	8.4	10.5	8.1	5.8
Retail Funds	-0.2	2.9	2.9	7.2	7.4	10.1	7.4	5.1

Source: Chant West

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

*Release Ends*

### About Chant West



Chant West Director, Warren Chant, or Senior Investment Research Manager, Mano Mohankumar, are available to discuss this release. Please call Danielle Alexander 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](http://www.chantwest.com.au).