



23 August 2010

New year off to a positive start

The 2011 financial year was off to an impressive start with the median growth superannuation fund (61 to 80% growth assets) delivering a return of 2.2% in July, despite the cloud still hanging over the global economy.

Chant West director, Warren Chant said: "The July result was on the back of strong share markets here and overseas, which are the main drivers of growth fund performance. In the US, the reporting season was generally positive, with several companies delivering better than expected results. Additionally, the results of stress tests performed on European banks provided some further relief."

The Australian share market was up 4.5% in July. International shares gained 5.8% in hedged terms, but only 0.7% in unhedged terms due to the appreciation of the A\$ against the US\$ (up from US\$0.85 to US\$0.90) and against other major currencies. Australian and global REITs advanced 1.1% and 7.7%, respectively.

Chant says: "While growth funds have rallied 22% since end-February 2009, they still need a further 13% return from here to get back to the pre-GFC levels of late October 2007. This may take some time, as economic data coming out of the US indicates a subdued outlook for the world's largest economy despite the positive reporting season. The Federal Reserve has moved into the bond market in an effort to keep interest rates low and give the economy more time to recover, but there are still fears of a second dip into recession."

Table 1 compares the median performance for each category in Chant West's multi-manager performance survey, ranging from All Growth to Conservative.

Table 1: Diversified Fund Performance							
Results to 31 July 2010							
Fund Category	Growth Assets (%)	1 Mth (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)
All Growth	100	3.1	8.1	-6.1	2.3	6.0	3.4
High Growth	81 – 100	2.7	8.7	-4.5	3.0	6.3	4.3
Growth	61 – 80	2.2	8.6	-2.5	3.6	6.4	4.9
Balanced	41 – 60	1.7	8.6	-0.1	3.9	5.8	4.7
Conservative	21 – 40	1.2	8.0	2.2	4.7	5.9	5.0

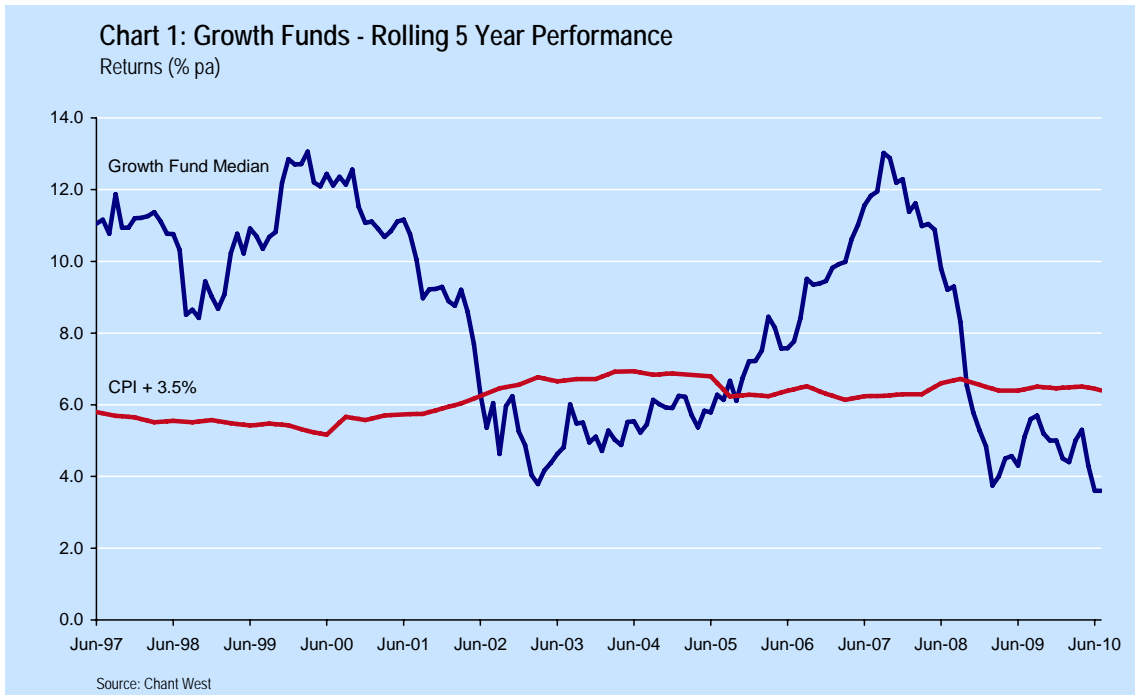
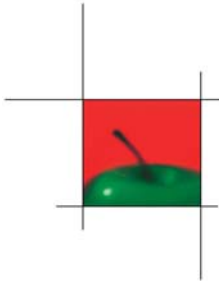
Note: Performance is shown net of investment fees and tax. It does not include administration fees or adviser commissions.

Chant says: "It has been a difficult few years for superannuation funds, and members have been advised to be patient and focus on the longer term. There has been a lot of focus on the ten year returns recently, and it's true that funds have fallen short of their typical strategy objectives over that period. But members need to be mindful that it has been a very unusual decade, encompassing two major market downturns – the 'tech wreck' and the GFC. All market cycles include their negative phases, and unfortunately the past decade has featured two very severe ones. If you look at slightly shorter or longer timeframes, say 7 years and 15 years, you find that funds are meeting their objectives. So it all depends what period you choose."

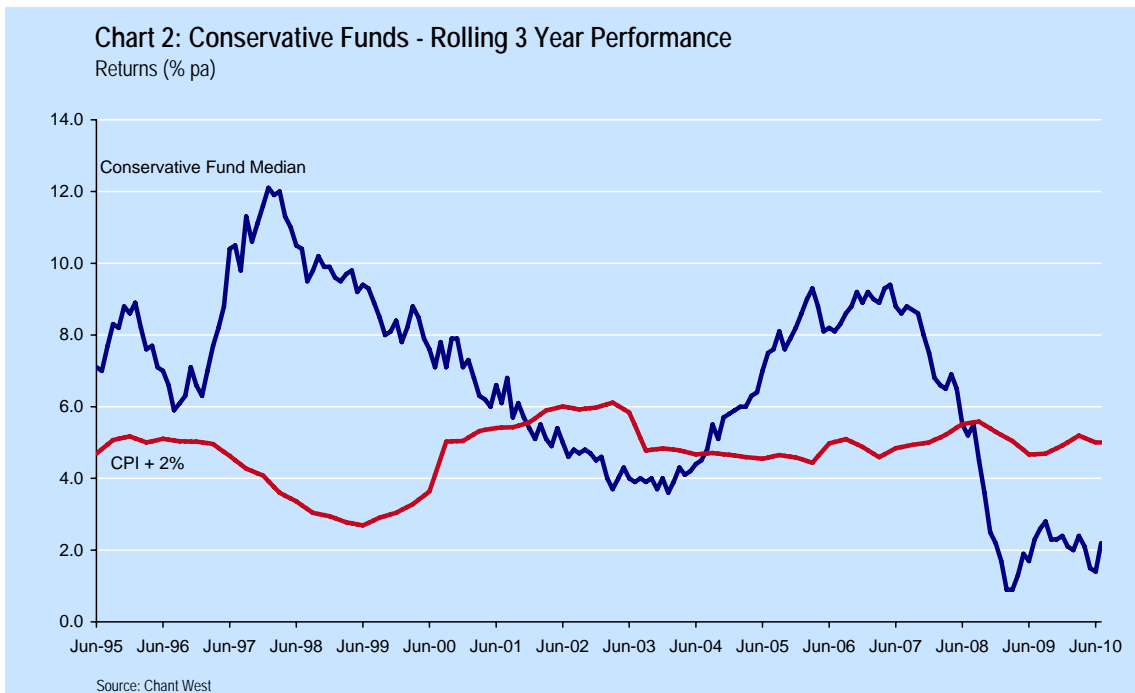
Media Release

“We expect the rolling 10 year numbers to improve as the disappointing returns of the ‘tech wreck’ period drop off. This serves as a reminder to members that, even when focusing on longer term performance, they need to be aware of market cycles. That’s why funds set their strategy objectives over rolling periods.”

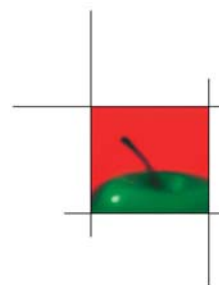
Chart 1 compares the rolling five year performance (since the start of compulsory superannuation) of the Growth category median with that of the typical strategy objective (CPI plus 3.5% per annum after investment fees and tax). **Chart 2** compares the rolling three year performance of the lower risk Conservative category median with a CPI plus 2% objective. In both cases, for about 60% of this extended period of time, funds have actually performed above expectations. However, they can perform below expectations for extended periods.



Note: The CPI return for July is an estimate



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Volatility even higher than the 'tech wreck' days

Chant says: "Since the onset of the global financial crisis, share markets have been reacting sharply to any news – good or bad. This volatility won't be going away any time soon. It seems to be a fact of life these days, and the Australian Securities Exchange has even announced plans to introduce a new volatility index."

Although not a perfect measure of volatility (due to the infrequency and lag associated with unlisted asset valuations) the most common measure used for diversified funds is standard deviation. [Table 2](#) illustrates how the volatility of growth funds has increased significantly over the past few years to levels in excess of those reached during the height of the 'tech wreck'.

Table 2: Rolling 5 Year Standard Deviation

To 30 June (% pa)

Fund category	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Growth	6.9	6.6	5.7	5.2	5.4	5.6	4.9	5.8	7.7	8.1
Conservative	3.3	3.3	2.9	2.4	2.2	2.4	2.2	2.6	3.7	3.8

Note: Standard deviations are based on performance net of investment fees and tax. Performance excludes administration fees or adviser commissions.

Another strong month for master trusts

In July, master trusts outperformed industry funds for the 13th time in the past 17 months on the back of strong listed markets. However, over the longer term industry funds continue to hold the advantage. Over 10 years to the end of July 2010, industry funds outperformed master trusts by 1.3% per annum, returning an annualised 5.6% against 4.3%, as shown in [Table 3](#).

Table 3: Growth Fund Performance

Results to 31 July 2010

Segment	1 Mth (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)
Industry Funds	2.0	8.1	-2.2	4.1	6.9	5.6
Master Trusts	2.5	9.8	-3.3	3.0	5.7	4.3

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, is available for an interview. Please call Warren or Joanne Putnins 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 issues surrounding superannuation.

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.