



Media Release

19 September 2022

Chant West philosophy: to ensure we capture an accurate picture of the market in any given month, we publish our monthly performance data once we've received responses from at least 80% of our growth fund universe.

Super funds slip back in August on mixed returns from shares

After a strong start to the 2023 financial year, super funds dropped back slightly in August with the median growth fund (61 to 80% in growth assets) retreating 0.4%. However, the return over the first two months of the financial year still sits at a healthy 2.6%.

Chant West Senior Investment Research Manager, Mano Mohankumar, says that diversification again came to the fore in August. "Listed share markets, which are the main drivers of growth fund performance, produced mixed results in August. Developed market international shares slipped 3.6% in hedged terms, but the depreciation of the Australian dollar relative to the US dollar reduced that loss to 2.5% in unhedged terms. In contrast, the Australian share market was actually up 1.2% for the month on the back of strong returns from resources companies. Bonds had a disappointing month as yields rose, with Australian and international bonds falling 2.5% and 2.7%, respectively.

"If super funds only invested in these traditional listed assets we'd have seen a more substantial fall over the month. But these days they are much more diversified, with most of them having meaningful allocations to unlisted assets such as unlisted property, unlisted infrastructure and private equity which help provide a smoother ride during periods of market volatility. That diversification helped to limit the overall downside to just 0.4% for the month.

"Overseas share markets fell in August after US Federal Reserve Chair, Jerome Powell, emphasised the importance of restoring price stability and said that will likely require maintaining a restrictive policy stance for some time. Even though year-on-year inflation in the US was down from the previous month, it still remains high at 8.3%. In Europe, inflation remains a major concern, particularly with energy prices reaching new highs. The Bank of England raised its interest rate during the month, while the European Central Bank indicated that it too would be increasing rates at its September meeting. While developed international share markets were down in August, emerging markets were up 2.2%. Meanwhile the Chinese economy remains sluggish due to ongoing COVID lockdowns and its continuing property crisis.

"Back at home, rising inflation remains a concern. Earlier this month we saw the RBA respond by raising the official cash rate again, by 0.5% to 2.35%, with further increases expected.

"Despite the challenging backdrop over the past two and a half years, the median growth fund is more than 10% ahead of the pre-COVID high that was reached at the end of January 2020. This should be comforting for fund members. More importantly, funds are continuing to meet their long-term return and risk objectives."

Table 1 compares the median performance to the end of August 2022 for each of the traditional diversified risk categories in Chant West's Multi-Manager Survey, ranging from All Growth to Conservative. All risk categories have generally met their typical long-term return objectives, which range from CPI + 1.75% for Conservative funds to CPI + 4.25% for All Growth.

Table 1: Traditional Diversified Fund Performance (Results to 31 August 2022)

Risk 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	96 – 100	-0.3	-1.9	4.1	-6.2	6.9	8.2	8.2	10.1	5.8
High Growth	81 – 95	-0.3	-1.1	3.4	-4.5	6.2	7.6	7.8	9.6	6.0
Growth	61 – 80	-0.4	-0.8	2.6	-3.7	5.2	6.4	6.7	8.0	5.5
Balanced	41 – 60	-0.5	-0.5	2.0	-3.0	3.5	5.0	5.2	6.5	5.0
Conservative	21 – 40	-0.6	-0.2	1.3	-2.4	2.2	3.6	4.0	4.9	4.5

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

Source: Chant West



Lifecycle products behaving as expected

Mohankumar says that while the Growth category is still where most people have their super invested, a meaningful number are now in so-called 'lifecycle' products. "Most retail funds have adopted a lifecycle design for their MySuper defaults where members are allocated to an age-based option that's progressively de-risked as that cohort gets older," he says.

"It's difficult to make direct comparisons of the performance of these age-based options with the traditional options that are based on a single risk category, and for that reason we report them separately. Table 2 shows the median performance for each of the retail age cohorts, together with their current median allocation to growth assets. For comparison purposes, it also includes a row for traditional MySuper Growth options – nearly all of which are not-for-profit funds. Care should be taken when comparing the performance of the retail lifecycle cohorts with the median MySuper Growth option, however, as they're managed differently so their level of risk varies over time."

Table 2: Median Retail MySuper Lifecycle Cohort Performance (Results to 31 August 2022)

	Median Growth Assets	1 Mth (%)	3 Mths (%)	FYTD (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	Since Jan 2014 (% pa)
1990s	90	-0.8	-1.8	3.9	-6.0	5.3	7.0	6.9	6.9
1980s	90	-0.9	-1.8	4.0	-6.1	5.5	7.0	7.0	6.9
1970s	90	-0.9	-1.8	4.0	-6.2	5.2	6.9	6.8	6.9
1960s	76	-0.9	-1.4	3.2	-6.0	3.7	5.5	5.6	5.8
1950s	53	-1.0	-1.2	2.4	-6.1	2.3	4.3	3.8	4.3
1940s	46	-1.0	-1.1	2.2	-6.1	1.9	3.8	3.7	4.1
MySuper Growth	71	-0.4	-0.8	2.6	-3.8	5.3	6.5	6.8	7.0

Notes:

1. Performance is shown net of investment fees and tax. It is before administration fees.
2. January 2014 represents the introduction of MySuper.

Source: Chant West

Despite the falls in global share markets so far in 2022, options that have higher allocations to growth assets have done better over most periods shown. Younger members of retail lifecycle products – those born in the 1970s, 1980s and 1990s – have held their own against the MySuper Growth median over the three-year period and longer. However, they've done so by taking on significantly more share market risk. On average, these younger cohorts have at least 20% more invested in listed shares and listed real assets than the typical MySuper Growth option.

The 1960s cohort has generally underperformed the median MySuper Growth option. This is partly due to a lower allocation to growth assets up until recently, when lifecycle product providers revised their glide paths to delay the de-risking process until older ages. Another reason for this underperformance is a lower allocation to unlisted assets, which have performed well, and a higher allocation to traditional defensive asset sectors, such as bonds and cash, which have been the weakest performing sectors since the introduction of MySuper.

The oldest cohorts (those born in the 1950s or earlier) are relatively less exposed to growth assets, so you would expect them to underperform the MySuper Growth median over longer periods. Capital preservation is more important at those ages, so while they miss out on the full benefit in rising markets, older members in retail lifecycle options are generally better protected in the event of market weakness.

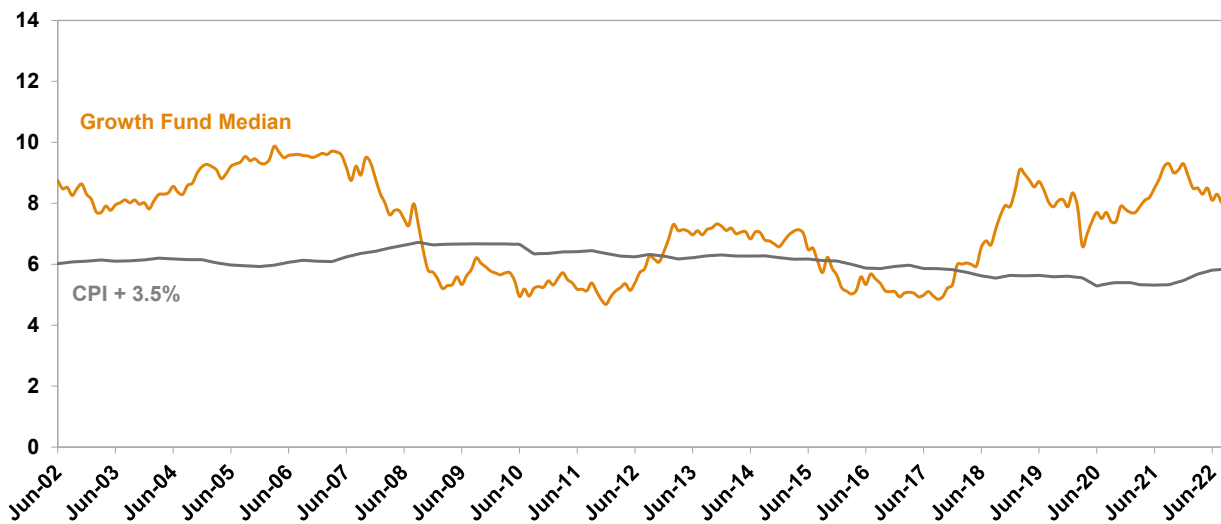


Long-term performance remains above target

MySuper products have only been operating for eight years, so when considering performance it's important to remember that super is a much longer-term proposition. Since the introduction of compulsory super in 1992, the median growth fund has returned 7.9% p.a. The annual CPI increase over the same period is 2.5%, giving a real return of 5.4% p.a. – well above the typical 3.5% target. Even looking at the past 20 years, which includes four major share market downturns – the 'tech wreck' in 2002-2003, the GFC in 2007-2009, COVID-19 in 2020 and the first half of 2022 driven by high inflation and rising interest rates to combat it – super funds have returned 7.1% p.a., which is still comfortably ahead of the typical objective.

The chart below shows that, for the majority of the time, the median growth fund has exceeded its return objective over rolling 10-year periods, which is a commonly used timeframe consistent with the long-term focus of super. The exceptions are two periods between mid-2008 and late-2017, when it fell behind. This is because of the devastating impact of the 16-month GFC period (end-October 2007 to end-February 2009) during which growth funds lost about 26% on average.

Growth Funds – Rolling 10 Year Performance (Returns – % pa)



Source: Chant West

Note: The CPI figures for July and August 2022 are estimates.

Source: Chant West



About Chant West

Senior Investment Research Manager Mano Mohankumar and General Manager Ian Fryer are available to discuss this release. Please call Amanda Ayshford on (02) 9361 1442 to arrange a time.



Mano Mohankumar

Mano has over 20 years of experience in the finance industry and regularly provides media comment on superannuation and investment matters.



Ian Fryer

Ian has worked in the superannuation industry for about 25 years in a range of research, consulting, actuarial and administration roles.

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