Media Release

19 July 2023

Resilient share markets propel super funds to a strong 9.2% return

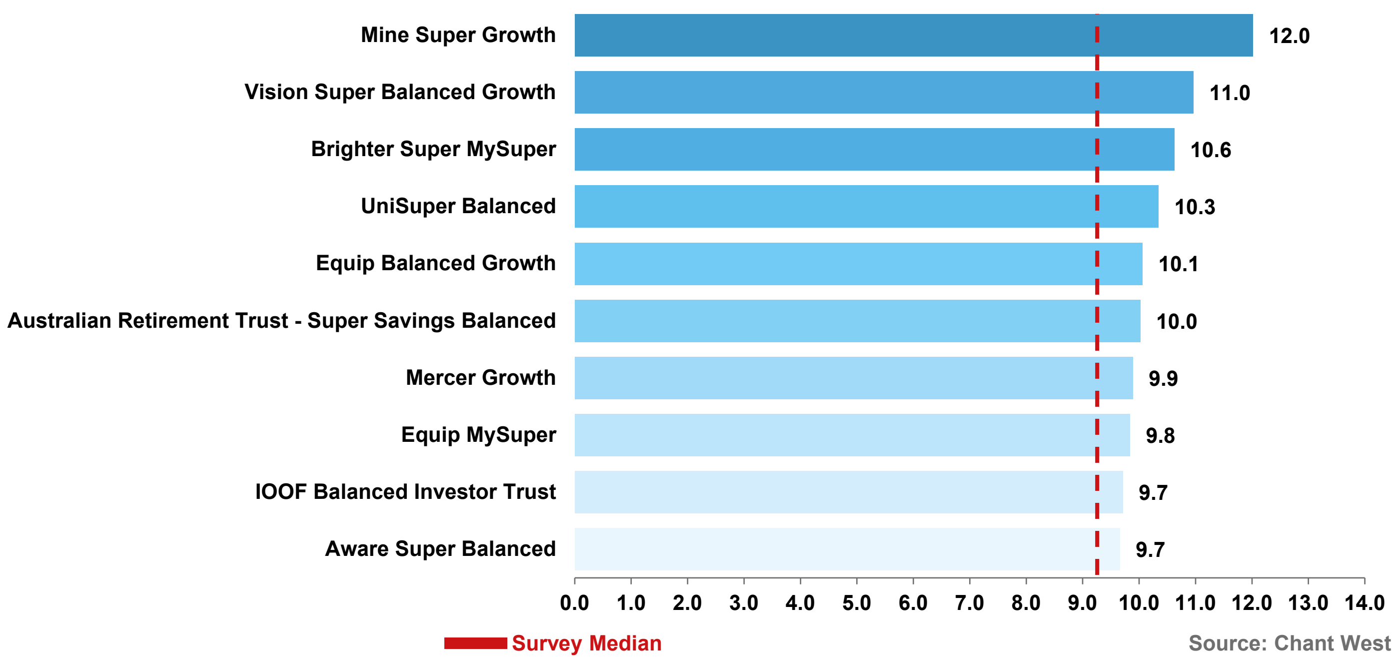
Against a challenging economic backdrop, super funds have posted a commendably strong financial year result with the median growth fund (61 to 80% in growth assets) returning 9.2%. That return easily erases the entire 3.3% loss from the previous financial year and represents the 12th positive return in the past 14 years. The FY23 return is also well ahead of the typical long-term return objective of about 6% p.a. Our growth fund category is where the majority of Australians have their super invested.

Chant West Senior Investment Research Manager, Mano Mohankumar says resilient share markets have been the main driver of the excellent result, with Australian and international shares returning 14.4% and 18.3% over the year, respectively. "In the past four financial years, financial markets have dealt firstly with the challenges of the COVID crisis, followed soon after by a period of rapidly rising inflation which central banks combatted by aggressively raising interest rates. It's been an incredibly challenging time, yet one that highlights the resilience of super funds' investment portfolios. They've shown their ability to limit the damage when markets are weak but still capture substantial upside when markets perform strongly. That's evidenced by the median growth fund returns of -0.6% in FY20, 18% in FY21, -3.3% in FY22 and now 9.2% this past year. The FY23 result is a reward for fund members who have remained patient and maintained a long-term focus.

"With share markets performing so strongly, especially global shares, the better performing funds over the year were generally those that had higher allocations to those asset sectors. Bonds were pretty flat for the year with Australian bonds returning 1.2% and international bonds losing 1.2%. With interest rates up, cash had its strongest year in a decade with a return of 2.9%. We're still in the process of collecting final returns for unlisted asset classes, of which infrastructure was clearly the best performer with low double-digit returns. Private equity, after being the strongest performing sector in each of the two previous financial years, looks to have finished the year slightly in the red. Unlisted property also finished in negative territory driven by markdowns in the office sector. Meanwhile listed real assets were mixed, with Australian listed property up 7.5% while international listed property and international listed infrastructure were down 5.9% and 2.8%, respectively. Currency was another contributing factor, and funds that maintained a higher foreign currency exposure would have benefited, given the depreciation of the Australian dollar against most major currencies."

Chart 1 shows the top 10 performing growth options over the 2022/23 financial year, together with the survey median.

Chart 1: Top 10 Performing Growth Funds (1 Year to June 2023 – %)



Source: Chant West

Notes:

1. For inclusion in the Top 10, an investment option that is not a fund's main option in the Growth category must meet a minimum size requirement of $1 billion.
2. Performance is shown net of investment fees and tax. It is before administration fees.

Table 1 compares the median performance for each of the traditional diversified risk categories in Chant West's Multi-Manager Survey, ranging from All Growth to Conservative. Over all periods shown from one year up, all risk categories have met their typical long-term return objectives, which range from CPI + 1.5% for Conservative funds to CPI + 4.25% for All Growth.

Table 1: Diversified Fund Performance (Results to 30 June 2023)

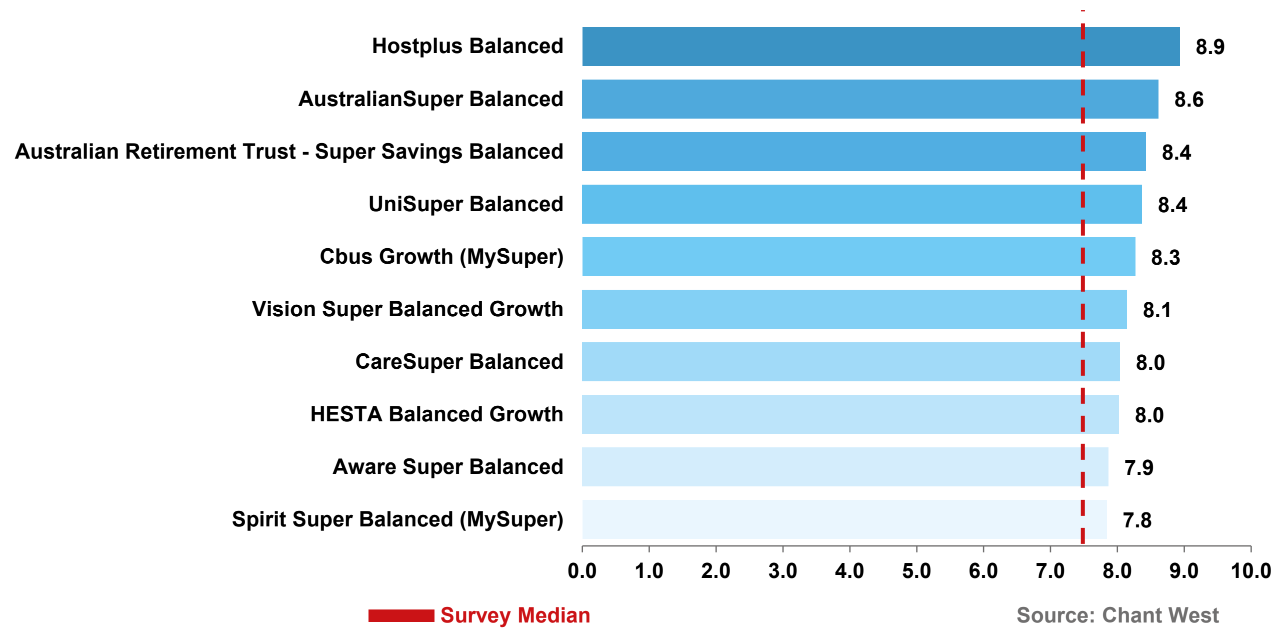
Fund Category	Growth Assets (%)	1 Mth (%)	Qtr (%)	1 Yr (%)	2 Yrs (% pa)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)	15 Yrs (% pa)
All Growth	96 – 100	2.1	3.2	12.4	3.4	10.8	7.5	9.2	9.4	7.2
High Growth	81 – 95	1.7	2.8	11.5	3.3	9.5	7.1	8.5	8.8	7.1
Growth	61 – 80	1.4	2.2	9.2	2.7	7.5	5.8	7.0	7.5	6.4
Balanced	41 – 60	0.8	1.5	6.9	2.2	5.4	4.6	5.4	6.0	5.6
Conservative	21 – 40	0.3	0.8	4.6	1.3	3.2	3.3	3.9	4.5	4.8

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

Source: Chant West

Chart 2 shows the top 10 performing growth options over 10 years, together with the survey median.

Chart 2: Top 10 Performing Growth Funds (10 Years to June 2023 – % pa)



Source: Chant West

Notes:

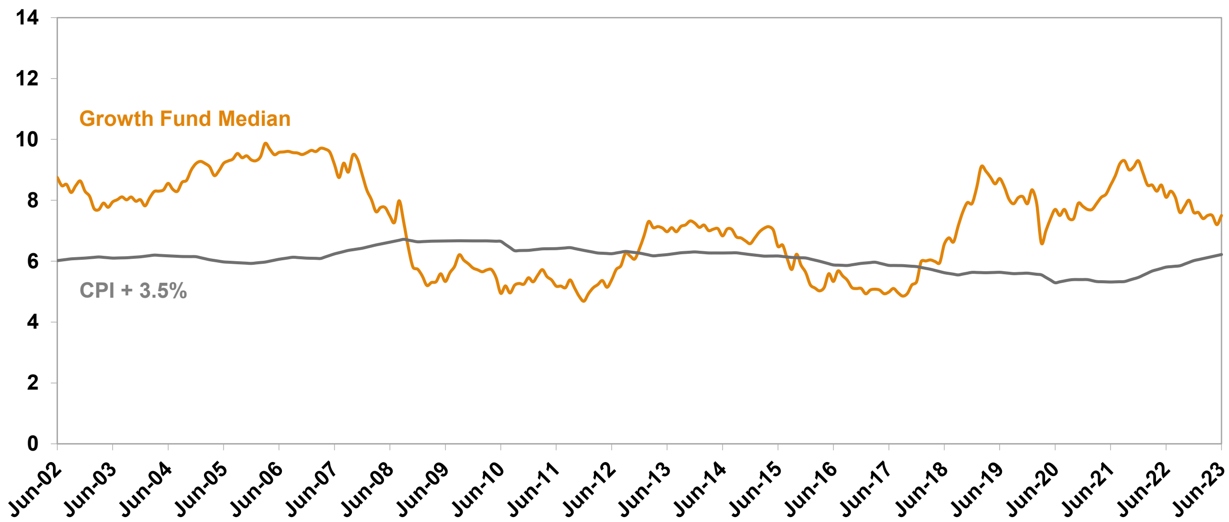
1. For inclusion in the Top 10, an investment option that is not a fund's main option in the Growth category must meet a minimum size requirement of $1 billion.
2. Performance is shown net of investment fees and tax. It is before administration fees.

Funds still delivering on long-term targets

While much of the focus at this time of year is on financial year performance, Mohankumar reminds fund members to think long term. “Super funds have had a good year with a median return of 9.2%, but returns at that sort of level shouldn’t be thought of as normal. The typical long-term return objective for growth funds is to beat inflation by 3.5% p.a., which translates to just over 6% p.a. We now have data going back 31 years to July 1992, the start of compulsory super. Over that period, the annualised return is 7.8% and the annual CPI increase is 2.7%, giving a real return of 5.1% p.a. – well above that 3.5% target. Even looking at the past 20 years, which includes three major share market downturns –the GFC in 2007-2009, COVID-19 in 2020 and the high inflation and rising interest rates in 2022 – super funds have returned 7.4% p.a., which is still comfortably ahead of the typical target.”

Chart 3 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.

Chart 3: Growth Funds – Rolling 10 Year Performance (Returns – % pa)



Source: Chant West

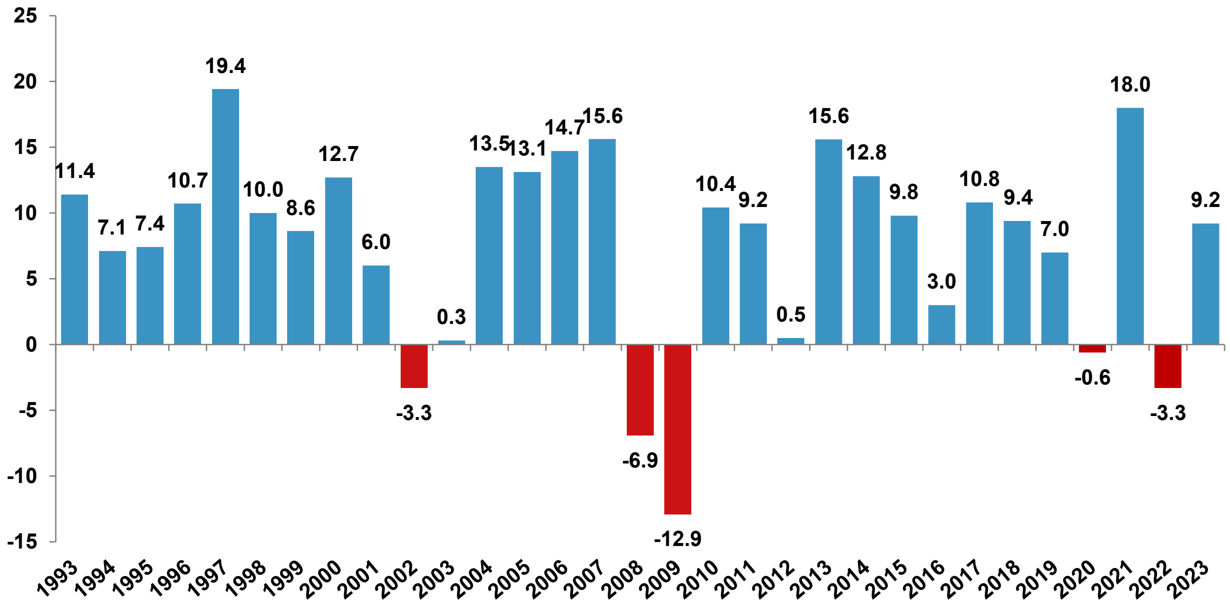
Note: The CPI figure for the June quarter is an estimate.

Media Release

Returns are important but risk matters too

"Returns are important but so is risk, and most funds also set themselves a risk objective. Risk is normally expressed as the likelihood of a negative annual return, and typically a growth fund would aim to post no more than one negative return in five years on average. Chart 4 plots the year-by-year performance of the median growth fund over the 31 financial years since the introduction of compulsory super. The objective would be no more than six negative years in that time. As it turns out there have only been five, so the risk objective has been met as well as the performance objective." Mohankumar said.

Chart 4: Growth Funds – Financial Year Returns (%)



Source: Chant West

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

Media Release

About Chant West

Senior Investment Research Manager Mano Mohankumar and General Manager (Chant West) 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' 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.