Media Release

18 January 2024

Super funds deliver strong 2023 result

Despite a challenging economic and geopolitical backdrop, super funds have delivered a strong calendar year result for their members with the median growth fund (61 to 80% in growth assets) up 9.9%. The return easily erases the entire 4.6% loss from 2022 and represents the 11th positive return in the past 12 years. The FY23 return is also well ahead of the typical long-term return objective of just over 6% p.a.

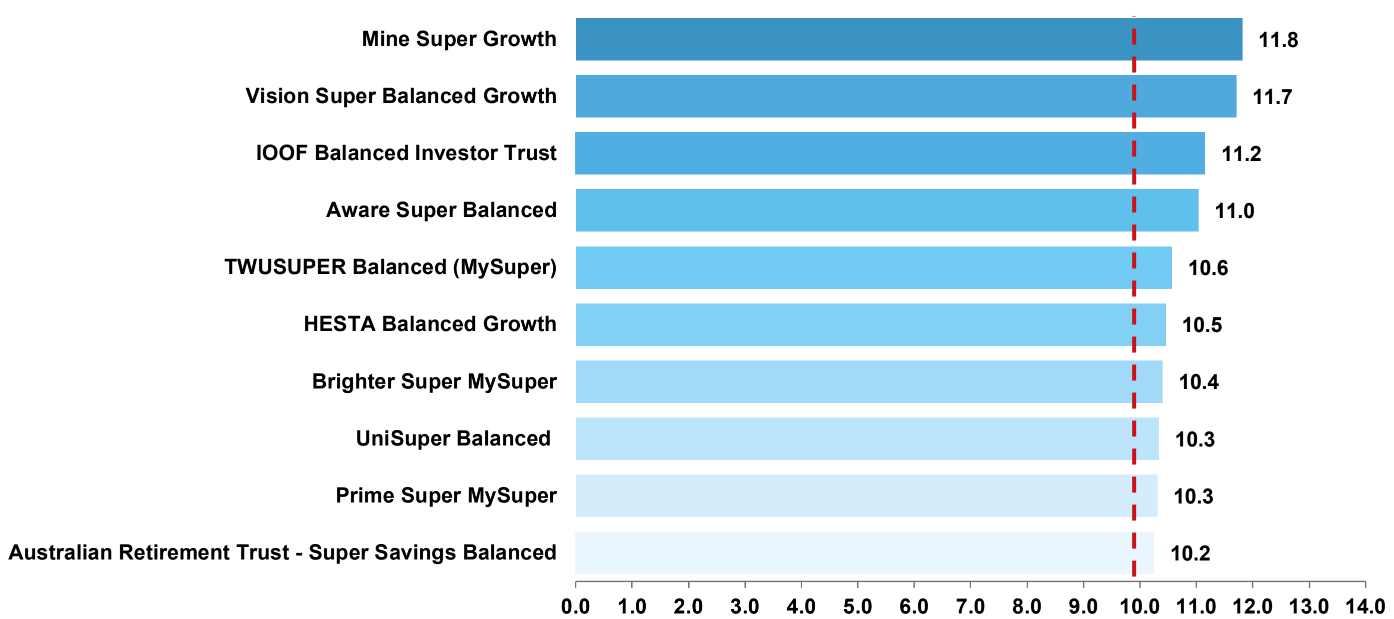
Chant West Senior Investment Research Manager, Mano Mohankumar, says that strong share markets have been the main driver of the excellent 2023 result. "International shares was the standout asset class with a tremendous 23% return over the year, led by the tech sector which benefitted from advancements in AI. While Australian shares didn't reach the same level, it still delivered a healthy 12.1% over the same period.

"The 2023 result is also a reward for those fund members who have remained patient and maintained a long-term focus. And that patience has certainly been tested at various points over the past four years, a period over which super funds' investment portfolios have proven their resilience and robustness. They've shown their ability to limit the damage during periods of share market weakness, as we saw during the COVID crisis in early 2020 and again in 2022 when we saw rapidly rising inflation combatted by central banks aggressively hiking interest rates. At the same time, they're able to still capture a meaningful proportion of the upswing when markets perform strongly, as we saw this past year.

"With share markets performing so well in 2023, the better performing funds over the year were generally those that had higher allocations to shares, particularly international shares. Bonds were back in positive territory over the year with Australian bonds and international bonds up 5.1% and 5.3%, respectively. Cash, benefitting from the higher interest rate environment, returned 3.9%. While we're in the process of collecting final returns for unlisted asset classes, infrastructure and private equity delivered positive returns over the year, though unlisted property finished in negative territory driven mainly by markdowns in the office sector. Meanwhile, listed real assets were mixed, with Australian listed property and international listed property up 16.9% and 7.9%, respectively, while international listed infrastructure was flat over the year.

Chart 1 shows the top 10 performing growth options over the 2023 calendar year, together with the survey median. While a lot of focus at this time of the year is on calendar year performance, long-term performance is far more important.

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



Source: Chant West

Notes:

1. For inclusion in the Top 10, investment options must have been in the Growth category for the full year and where an investment option is not a fund's main option in the Growth category, it must also 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. All risk categories have generally met their typical long-term return objectives, which typically range from CPI + 1.5% for Conservative funds to CPI + 4.25% for All Growth.

Table 1: Diversified Fund Performance (Results to 31 December 2023)

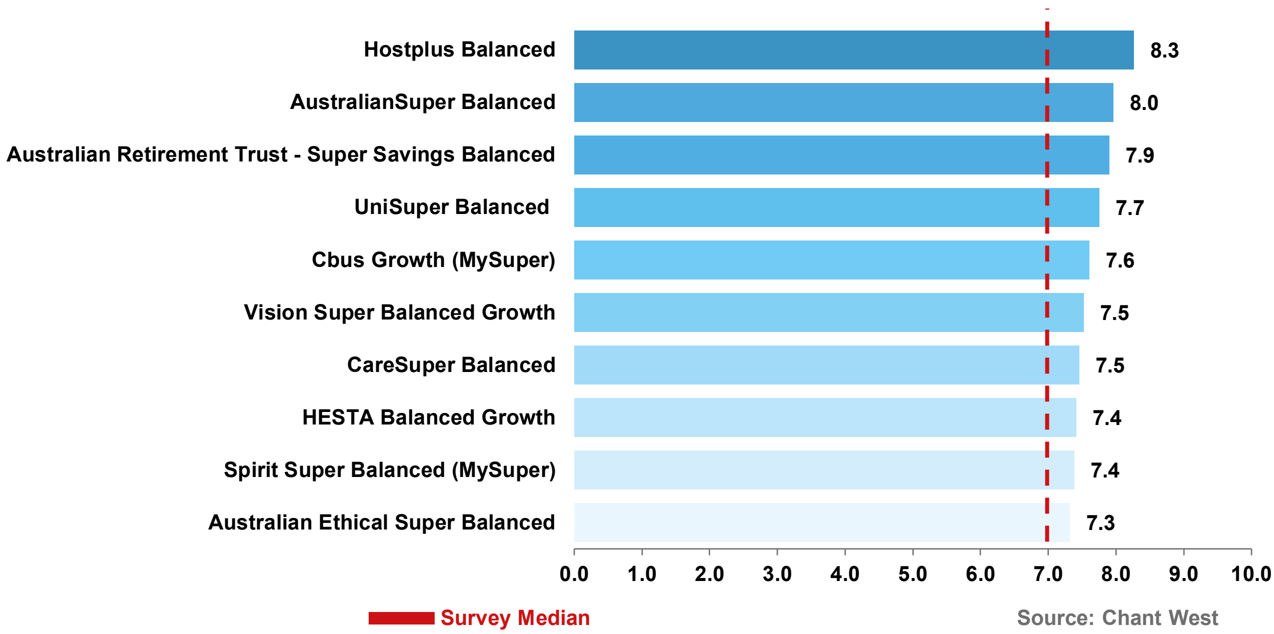
Fund Category	Growth Assets (%)	1 Mth (%)	Qtr (%)	FYTD (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)	15 Yrs (% pa)
All Growth	96 – 100	3.7	5.5	4.7	13.1	8.0	9.9	8.7	8.5	9.4
High Growth	81 – 95	3.0	4.6	4.2	11.4	7.1	8.9	8.1	8.1	8.7
Growth	61 – 80	2.7	4.2	3.8	9.9	5.9	7.3	6.9	7.0	7.8
Balanced	41 – 60	2.3	3.6	3.4	8.1	4.4	5.7	5.4	5.6	6.5
Conservative	21 – 40	1.8	3.1	2.9	6.2	3.1	4.0	4.0	4.4	5.3

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 December 2023 – % pa)



Notes:

1. For inclusion in the Top 10, investment options must have been in the Growth category for the full 10 years and where an investment option is not a fund's main option in the Growth category, it must also meet a minimum size requirement of $1 billion.
2. Performance is shown net of investment fees and tax. It is before administration fees.

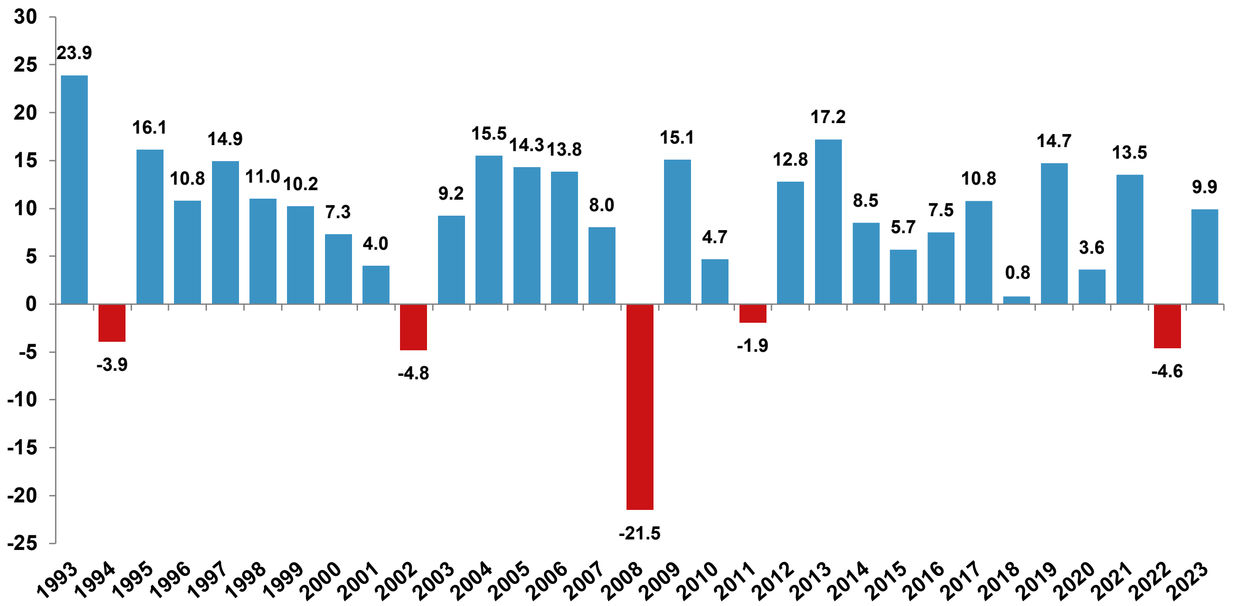
Funds continue to beat risk and return targets

While much of the focus at this time of year is on calendar year performance, Mohankumar believes fund members always need to think long term. To provide further context, Chart 3 plots the year-by-year performance of the median growth fund over the 31 full calendar years since the introduction of compulsory super in July 1992. It shows that super funds have delivered on their risk and return objectives over the long term.

Mohankumar says that while super funds had a terrific 2023 with a median return of 9.9%, that level of return 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. Since the introduction of compulsory super, the annualised return is 7.9% and the annual CPI increase is 2.7%, giving a real return of 5.2% 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 7.3% p.a., which is still comfortably ahead of the typical objective."

"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. This objective would translate to no more than six negative years over the 31 full calendar years shown. As it turns out, there have only been five, so the risk objective has been met as well as the performance objective."

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



Source: Chant West

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

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Long-term performance remains above target

Chart 4 below shows that for most of the time since compulsory super, 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 4: Growth Funds – Rolling 10 Year Performance (Returns – % pa)

Source: Chant West

Note: The CPI figure for the December 2023 quarter is an estimate.

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About Chant West

Senior Investment Research Manager Mano Mohankumar and General Manager (Chant West) Ian Fryer are available to discuss this release. Please call Darlene White on 0438 041 032 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.

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