

Chant West

Media Release

17 July 2024

Super funds deliver strong result in FY24

Despite the uncertain economic and geopolitical backdrop, super funds have posted another excellent financial year result with the median growth fund (61 to 80% in growth assets) returning 9.1% for FY24. That return comes on the back of the surprisingly strong FY23 return of 9.2% and represents the 13th positive return in the past 15 years. The FY24 return is also well ahead of the typical long-term return objective of approximately 6% p.a.

Chant West Senior Investment Research Manager, Mano Mohankumar, says strong share markets were the main driver of the better-than expected FY24 result. “International shares was the greatest contributor, surging 21.5% over the year, led by the strong performance of the tech sector. While not reaching the same heights, Australian shares also had a healthy year returning 11.9%.

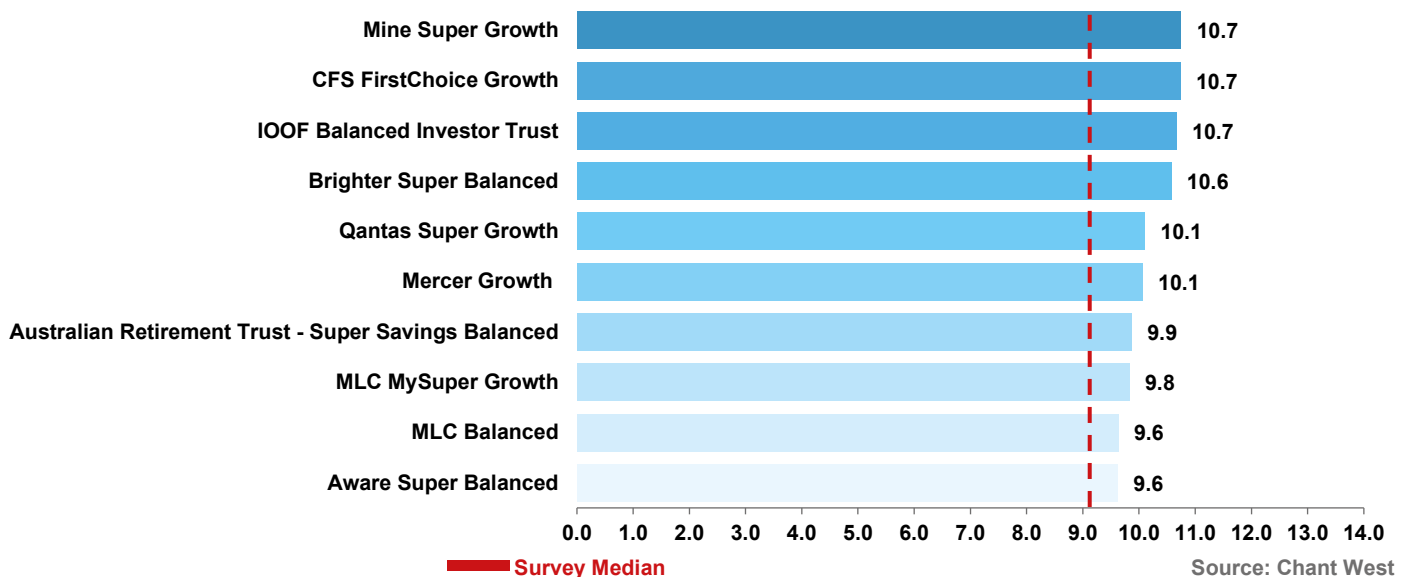
“The return experience over the past two years in the face of much uncertainty is another reminder of the importance of remaining patient and maintaining a long-term focus. If you think back two years ago, FY23 kicked off amid surging inflation and uncertainty around when interest rate hikes might come to an end. At that time, I don’t think anyone could have forecast a 19% return over the subsequent two years and the small FY22 loss of 3.3% now seems like a distant memory.

“With share markets performing so strongly in FY24, especially international shares, it’s not surprising that the better performing super funds generally had higher allocations to those asset classes. In fact, all major asset classes were in positive territory over the year with the exception of unlisted property, which was hurt mainly by downward revaluations in the office sector.

“We’re still in the process of collecting final returns for unlisted asset classes such as unlisted property, unlisted infrastructure and private equity. While the loss for unlisted property over FY24 is likely to be in the high single digits on average, we estimate that unlisted infrastructure and private equity finished the year with gains in the 5% to 7% range. Listed real assets were also up, with Australian listed property returning an impressive 23.8%, while international listed property and international listed infrastructure yielded more modest gains of 4.6% and 2.6%, respectively. Traditional defensive sectors were also up with cash, Australian bonds and international bonds advancing 4.4%, 3.7% and 2.7, respectively.

Chart 1 shows the top 10 performing growth options over the 2023/24 financial year, together with the survey median. However, long-term performance is far more important.

Chart 1: Top 10 Performing Growth Funds (1 Year to June 2024 – %)



Notes:

- 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.
- Performance is shown net of investment fees and tax. It is before administration fees.
- Members up to age 55 in the MLC MySuper default are entirely invested in MLC MySuper Growth but it is not available as a stand-alone option.



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Table 1 compares the median performance for each of the traditional diversified risk categories in Chant West's Super Fund Performance Survey, ranging from All Growth to Conservative. Over the long term, all risk categories have met their typical 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 2024)

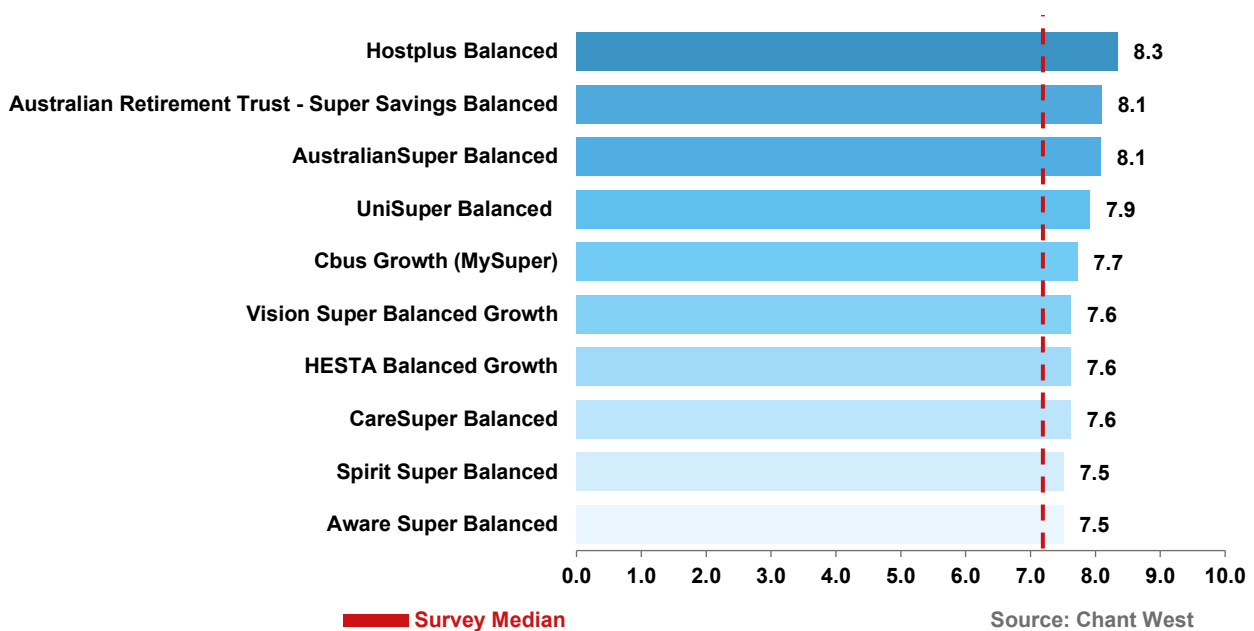
Fund Category	Growth Assets (%)	1 Mth (%)	Qtr (%)	CYTD (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)	15 Yrs (% pa)
All Growth	96 – 100	1.1	-0.1	7.8	12.7	6.1	8.3	9.0	9.1	9.6
High Growth	81 – 95	0.9	0.0	6.1	10.8	5.7	7.7	8.2	8.4	9.1
Growth	61 – 80	0.9	0.1	5.0	9.1	4.9	6.3	6.9	7.2	8.0
Balanced	41 – 60	0.7	0.1	3.7	7.4	3.9	4.8	5.4	5.8	6.7
Conservative	21 – 40	0.6	0.2	2.4	5.5	2.6	3.3	3.9	4.3	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 June 2024 – % 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.



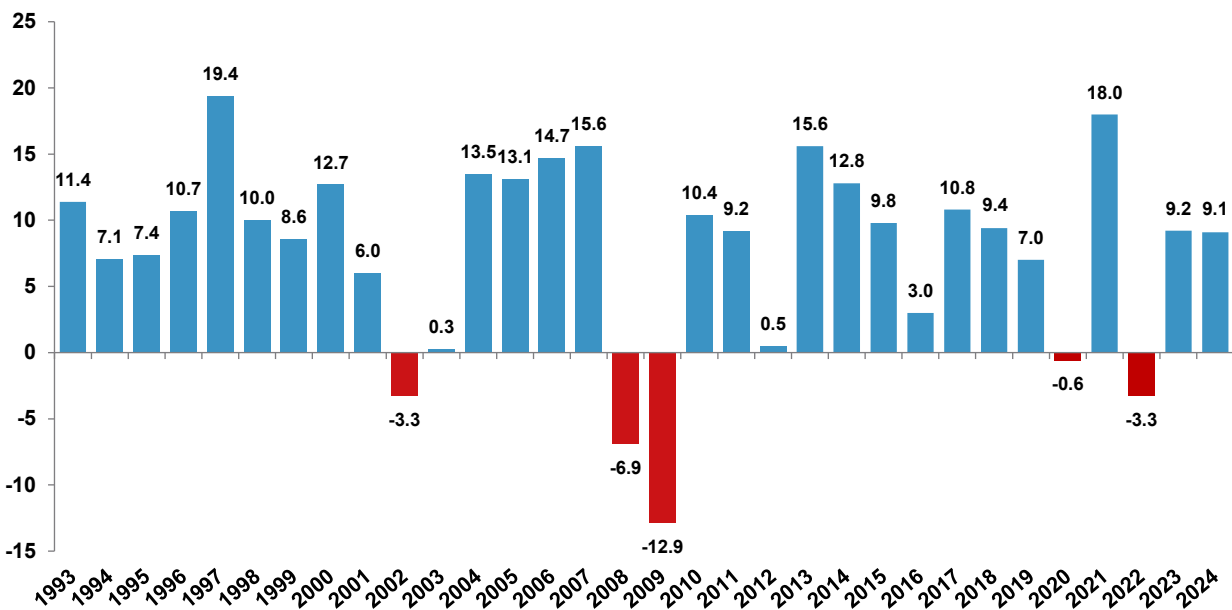
Funds continue to beat risk and return targets

While much of the focus at this time of year is on financial 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 32 financial 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 good FY24 with a median return of 9.1%, 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 7.2% 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 32 financial 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 – Financial Year Returns (%)



Source: Chant West

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



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 June 2024 quarter is an estimate.

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.



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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