Chant West

Media Release

22 August 2023

Super funds off to a bright start in the new financial year

Fresh off a strong FY23 return of 9.2%, super funds had a bright start to the new financial year with the median growth fund (61 to 80% in growth assets) returning 1.5% in July.

Chant West Senior Investment Research Manager, Mano Mohankumar, says that listed share markets – the main drivers of growth fund performance – had a strong month with the energy sector leading the way.

“Australian shares were up 2.9% for the month. Developed market international shares rose 2.9% in hedged terms and 2.1% unhedged. International bonds were flat, while Australian bonds were up 0.5%. With share markets performing strongly, naturally it was the higher risk investment options that benefited most.

“In the US, share market gains were driven by resilient economic growth data and falling inflation. The Federal Reserve raised interest rates by 0.25% in July with the market seeming to expect a pause in hikes. In the eurozone, we also saw falling inflation and positive economic data. Like the Fed, the European Central Bank raised rates by 0.25% in July with markets anticipating that the bank may be close to ending its rate hiking cycle. The inflation rate slowed in the UK as well, causing investors to pull back their expectations that the Bank of England would continue with its aggressive rate rises. Nevertheless, it also raised rates earlier this month by 0.25% citing ongoing wage inflation.

“Emerging markets outperformed developed markets in July, returning 4.9% as the Chinese government indicated support for its struggling property sector. It also pledged to boost consumption and alleviate local government debt issues. Back at home, the Reserve Bank left interest rates on hold at 4.1% earlier this month for the second consecutive month. This was in response to slowing economic growth, which is starting to bring down inflation, and also to the burgeoning cost of living pressures on Australian households.”

The table below compares the median performance to the end of July 2023 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 + 1.5% for Conservative funds to CPI + 4.25% for All Growth.

Traditional Diversified Fund Performance (Results to 31 July 2023)

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	2.5	3.8	2.5	10.7	11.3	7.6	9.0	9.2	7.6
High Growth	81 – 95	1.9	3.3	1.9	9.1	9.8	7.2	8.3	8.5	7.1
Growth	61 – 80	1.5	2.5	1.5	7.5	7.8	5.9	6.9	7.3	6.5
Balanced	41 – 60	1.2	1.6	1.2	5.5	5.5	4.6	5.3	5.9	5.8
Conservative	21 – 40	0.8	0.8	0.8	3.6	3.3	3.5	3.9	4.5	4.9

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

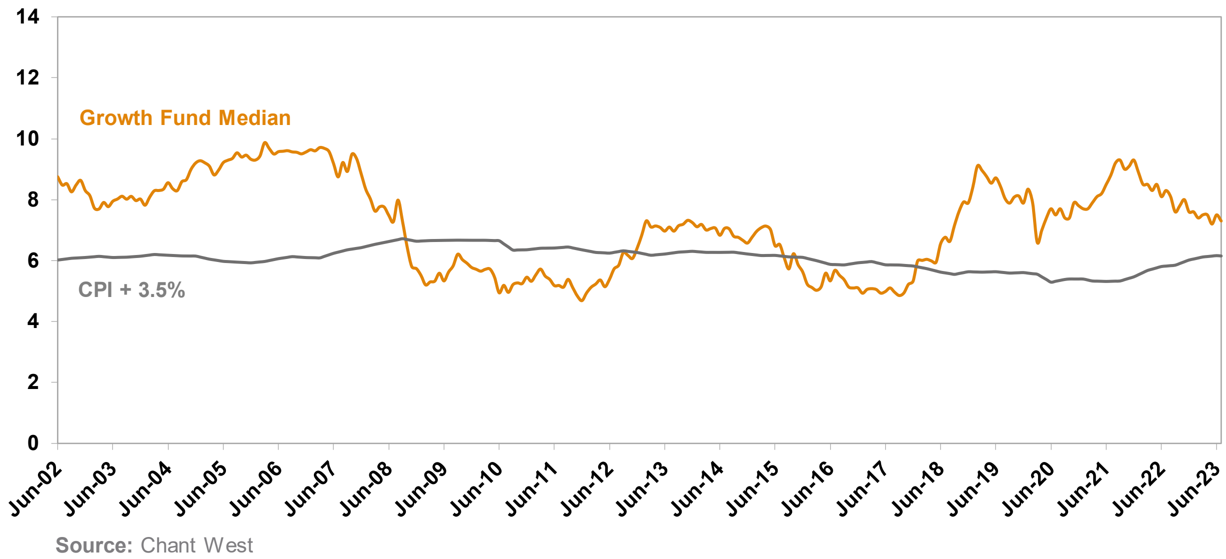
Source: Chant West

Long-term performance remains above target

MySuper products have only been operating for about nine and a half 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 July 1992, the median growth fund has returned 7.8% p.a. The annual CPI increase over the same period is 2.6%, giving a real return of 5.2% p.a. – well above the typical 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 objective.

The chart below shows that, for most 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)



Note: The CPI figure for July 2023 is an estimate.

Source: Chant West

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.

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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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