Chant West

Media Release

20 March 2023

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.

Tougher markets in February see super funds experience small pull-back

After a strong start to the year, investment markets went into reverse in February on continuing inflation concerns. As a result, the median growth super fund (61 to 80% in growth assets) gave back a little of January's strong 3% gain, but was able to limit the monthly loss to just 0.5%.

Chant West Senior Investment Research Manager, Mano Mohankumar, says February saw both share and bond markets down. "Over the month, Australian shares dipped 2.6% while hedged international shares lost 1.6%. With bond yields rising, Australian and international bonds fell 1.3% and 1.8%, respectively. Despite all of this the median growth fund, mainly through diversification, only lost 0.5%. In particular, funds were able to benefit from exposure to unlisted assets and foreign currency. With the Australian dollar's depreciation over the month (down from US$0.70 to US$0.67), the international shares loss of 1.6% in hedged terms translated to a gain of 2.1% in unhedged terms.

"It's particularly important for fund members to remember the value of diversification given we're at a time when we continue to see market volatility as investors react sharply to news – good or bad. With an allocation of 55% on average to listed shares, growth funds are able to capture a meaningful proportion of the upside when markets perform strongly, as we saw in January. But at the same time, with the remaining 45% invested across a wide range of other asset sectors, they are able to cushion the blow during periods of share market weakness, as evidenced in February.

"There were signs in February that the US Federal Reserve's series of interest rate increases were starting to curb inflation, although it remains at elevated levels. While the Fed slowed the pace of rate rises at its February meeting, with an increase of only 0.25% – down from the previous 0.50% rise – resilient economic data was released indicating that a pause in rate hikes may still be some way off. Inflation in Europe also showed signs of slowing, but remains high. The collapses of Silicon Valley Bank and Signature Bank in the US sparked some turmoil early in March. More significantly, the sudden downfall of Credit Suisse threatened a crisis of confidence across global financial markets. That threat looks to have been averted by UBS's purchase of the stricken bank in a government-sponsored rescue deal. Amidst all this, the European Central Bank went ahead with another 0.5% rate rise last week, stating that inflation poses a bigger threat to the economy than the unrest in the banking sector. All eyes will now be on what the Fed and the Bank of England do when they meet this week.

"Closer to home, China's reopening provides some potential upside. In Australia, inflation remains higher than expected, prompting the Reserve Bank to respond with another 0.25% rate increase earlier this month."

Table 1 compares the median performance to the end of February 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 + 1.75% for Conservative funds to CPI + 4.25% for All Growth.

Table 1: Traditional Diversified Fund Performance (Results to 28 February 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	-0.4	0.6	7.9	1.5	7.6	7.1	9.3	9.2	6.6
High Growth	81 – 95	-0.4	0.6	7.3	1.4	6.7	6.8	8.7	8.6	6.6
Growth	61 – 80	-0.5	0.5	5.7	1.0	5.2	5.7	7.2	7.4	6.0
Balanced	41 – 60	-0.4	0.4	4.3	0.3	3.6	4.5	5.5	5.9	5.5
Conservative	21 – 40	-0.4	0.4	2.8	0.0	2.1	3.2	4.0	4.6	4.7

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 28 February 2023)

	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	-0.2	7.0	0.5	5.6	6.1	7.8	6.8
1980s	90	-0.8	-0.2	7.0	0.5	5.7	6.0	7.7	6.8
1970s	90	-0.8	-0.2	7.0	0.0	5.4	5.6	7.6	6.7
1960s	76	-0.9	-0.2	5.7	-0.9	3.9	4.7	5.6	5.3
1950s	53	-0.9	-0.2	3.9	-1.4	1.8	3.2	4.1	4.2
1940s	46	-0.9	-0.2	3.9	-1.6	1.6	2.8	3.7	3.9
MySuper Growth	71	-0.4	0.5	5.7	1.2	5.5	6.0	7.3	6.9

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 pullback in calendar year 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 either outperformed or 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 about two years ago, 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.

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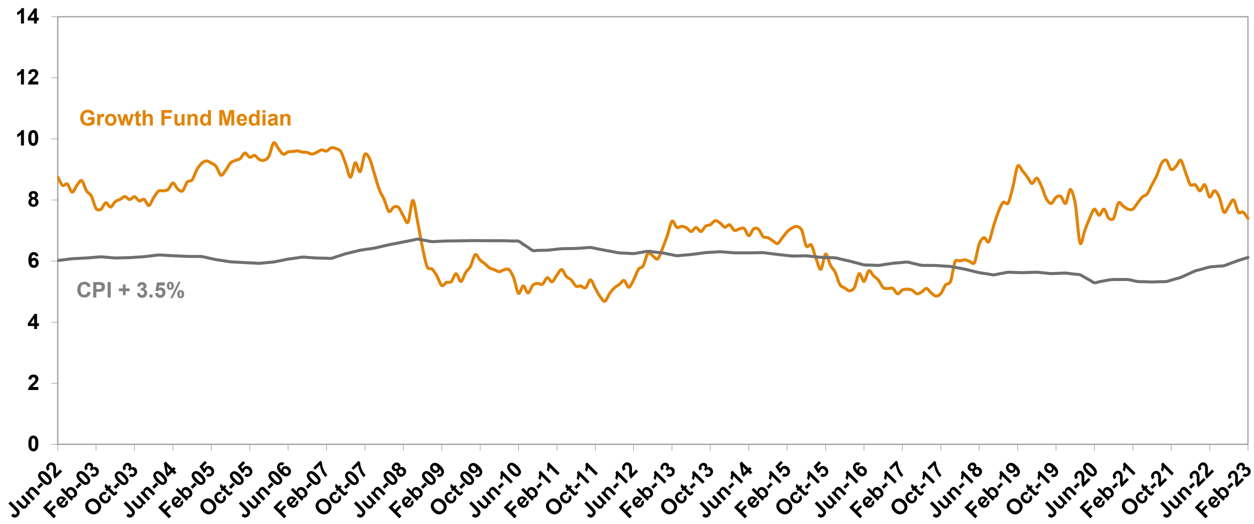
Long-term performance remains above target

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 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 four major share market downturns – the ‘tech wreck’ in 2002-2003, the GFC in 2007-2009, COVID-19 in 2020 and the high inflation and rising interest rates in 2022 – super funds have returned 7.5 % 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 January and February 2023 are estimates.

Source: Chant West

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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 Nick Kane on (03) 7068 9068 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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