Chant West

Media Release

21 June 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.

Super fund members to be rewarded for patience

Super funds experienced a small pullback in May, with the median growth fund (61 to 80% in growth assets) down 0.4% over the month. But with markets up in June so far, and with just over a week of the financial year remaining, we estimate that the median growth fund return for the year so far is sitting at about 8.5%. A final result close to that figure would be a tremendous outcome considering the challenging economic backdrop and would easily erase the entire loss of 3.3% from the 2022 financial year.

Chant West Senior Investment Research Manager, Mano Mohankumar, says that resilient share markets have been the main driver of the healthy return. "At a time when many Australians are feeling financial stress due to high inflation and the surge in interest rates, the better than expected financial year return would provide some good news. It's a reward for super fund members who have remained patient and maintained a long-term focus. Remember that the 2022 financial year closed with a final quarter loss of 5.5% amid surging inflation and uncertainty as to when interest rate rises might come to an end. At that time, we didn't think that a year down the track, we'd be looking at a solid annual return in the order of 8.5%, so it's another reminder to put short-term setbacks to one side and focus on the long game.

"In the month of May, Australian shares fell 2.5%. International shares were down 0.2% in hedged terms but the slight depreciation of the Australian dollar pushed that into positive territory at 1.2% in unhedged terms. Bonds were down due to rising yields, with Australian and international bonds retreating 1.2% and 0.5%, respectively.

"In the US, concerns around the debt ceiling negotiations weighed on market sentiment although a deal was finally reached in early June. The Federal Reserve raised interest rates by 0.25% in May. More recently, at its June meeting, it kept rates on hold at a target range of 5% to 5.25%, snapping a string of 10 consecutive rises. The decision came as year-on-year inflation dropped to 4%. Despite this pause in rate hikes, the Fed Chair, Jerome Powell anticipated the need for further increases to bring inflation down to the Fed's 2% target. Meanwhile, the European Central Bank and Bank of England raised interest rates by 0.25% at their most recent meetings as they continue to combat stubbornly high inflation.

"In China, optimism seen earlier in the year following the reopening of its economy faded due to disappointing economic data and weakening demand. Back at home, inflation remains stubborn and the Reserve Bank again raised interest rates by 0.25% earlier this month to bring the official cash rate to 4.1% – the highest since April 2012."

The table below compares the median performance to the end of May 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 May 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	-0.2	1.8	10.6	4.3	10.5	7.4	8.6	9.1	6.7
High Growth	81 – 95	-0.3	2.2	9.7	5.2	9.2	7.1	8.0	8.6	6.8
Growth	61 – 80	-0.4	1.9	7.6	4.0	7.4	5.9	6.7	7.4	6.0
Balanced	41 – 60	-0.3	1.6	6.0	3.6	5.3	4.7	5.3	5.9	5.4
Conservative	21 – 40	-0.2	1.6	4.4	2.7	3.3	3.4	3.9	4.5	4.6

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

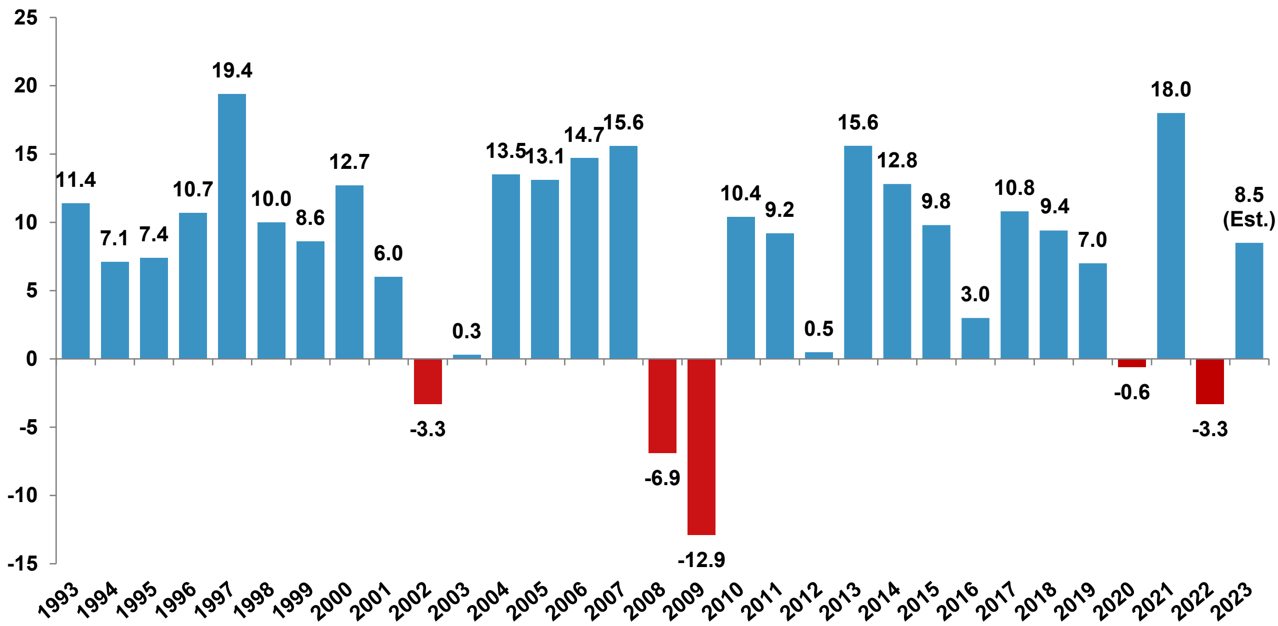
Source: Chant West

Funds continue to beat risk and return targets

To provide further context, Chart 1 plots the year-by-year performance of the median growth fund over the previous 30 full financial years since the introduction of compulsory super in July 1992, as well as the 2023 financial year to date return. It shows that super funds have delivered on their risk and return objectives over the long term. Since the introduction of compulsory super, 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.

On the risk side, there have only been five negative years over the entire period which translates to about one year in every six. Again, funds have done better than their typical long-term risk objective which is one negative return in every five years, on average.

Chart 1: Growth Funds – Rolling 10 Year Performance (Returns – % pa)



Source: Chant West

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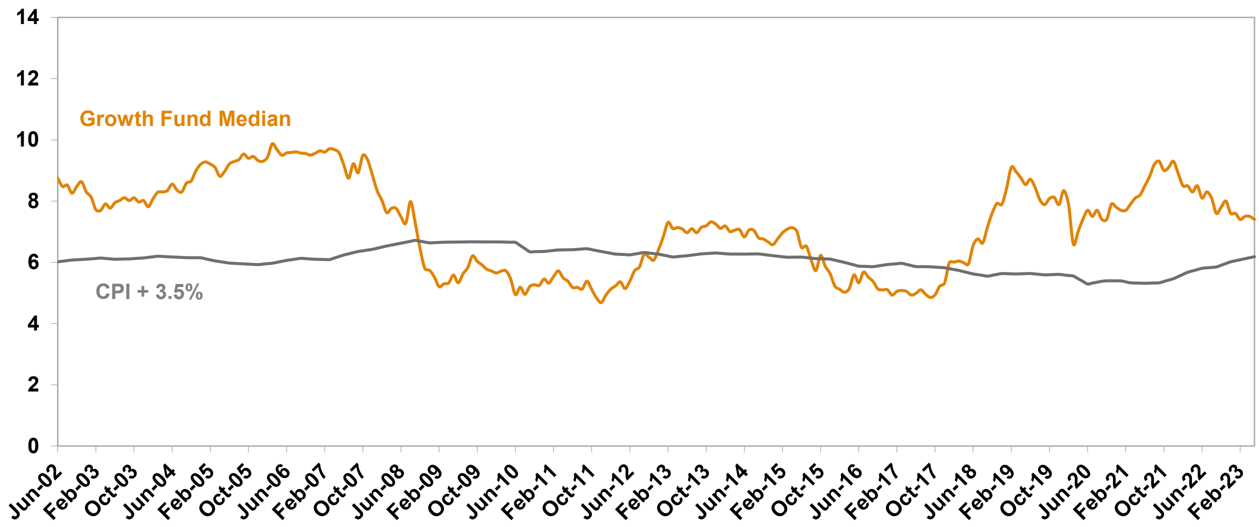
Chart 2 below shows that, for most of the time since compulsory super, the median growth fund has exceeded its return objective over rolling 10-year periods, which is a commonly used timeframe consistent with the long-term focus of super. The exceptions are two periods between mid-2008 and late-2017, 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 2: Growth Funds – Rolling 10 Year Performance (Returns – % pa)



Source: Chant West

Note: The CPI figures for April and May 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 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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