Media Release

19 September 2023

Super funds becalmed in August on negative market sentiment

After a strong start to the new financial year, super funds encountered a more challenging month in August given the volatility in investment markets. Despite that, the median growth fund (61 to 80% in growth assets) was still only down 0.1% over the month. That means the return over the first two months of the current financial year stands at 1.4%.

Chant West Senior Investment Research Manager, Mano Mohankumar, says that diversification helped cushion the impact of negative returns from listed share markets in August.

“Australian shares were down 0.8% for the month. Developed market international shares fell 1.8% in hedged terms. However, due to the depreciation of the Australian dollar over the month (down from US$0.67 to US$0.65), the return in unhedged terms was a positive 1.6% and super funds, on average, have about 70% of their international shares exposure unhedged. Bond markets were mixed, with Australian bonds up 0.7% and international bonds down 0.3%.

“In the US, despite the release of healthy economic data, share markets were down in August mainly due to waning confidence that the July rate increase would be the end the Federal Reserve’s rate hiking cycle. Markets were also down in the eurozone where we saw disappointing economic data while inflation remains high. At its most recent meeting a few days ago, the European Central Bank raised rates by 0.25% – its 10th hike. In the UK, concerns about the faltering Chinese economy weighed on markets. The Bank of England raised rates in August by 0.25% and appears poised to increase rates again this week for the 15th time since 2020 in its battle to tame inflation.

“Emerging markets materially underperformed developed markets in August, losing 2.4% on the back of worse than expected economic data coming out of China and the ongoing struggles of its property sector. Back at home, the Reserve Bank left interest rates on hold at 4.1% earlier this month for the third consecutive month. While inflation is slowing, it remains much higher than the RBA’s target range of 2 to 3% so the bank left open the possibility of further rate rises if needed."

The table below compares the median performance to the end of August 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 generally range from CPI + 1.5% for Conservative funds to CPI + 4.25% for All Growth.

Traditional Diversified Fund Performance (Results to 31 August 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	3.8	2.0	10.6	9.9	7.2	8.9	8.9	7.4
High Growth	81 – 95	-0.1	3.4	1.7	9.6	8.8	6.9	8.3	8.5	7.0
Growth	61 – 80	-0.1	2.8	1.4	7.9	7.0	5.7	6.8	7.3	6.3
Balanced	41 – 60	0.1	2.1	1.2	6.2	5.1	4.5	5.3	5.8	5.6
Conservative	21 – 40	0.2	1.3	0.9	4.4	3.1	3.4	3.9	4.5	4.8

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

Source: Chant West

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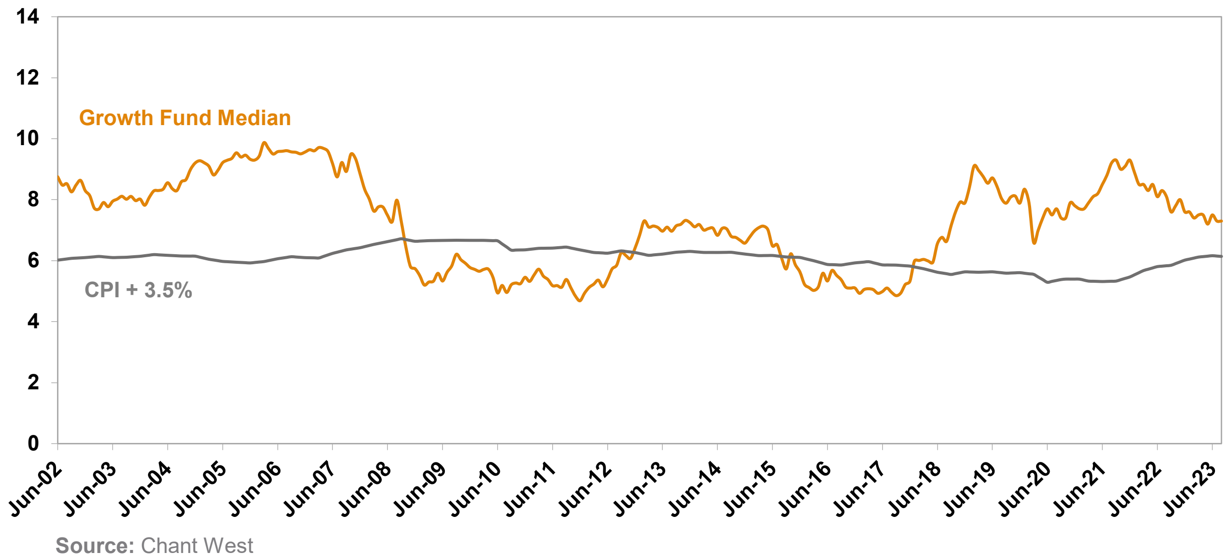
Long-term performance remains above target

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 7.9% p.a. The annual CPI increase over the same period is 2.6%, giving a real return of 5.3% 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 7.3 % 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 figures for July and August 2023 are estimates.
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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