Media Release

20 April 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 funds regain momentum as market turbulence subsides

Super funds withstood the market volatility in early March prompted by concerns about the banking sector, and went on to post a solid return for the month. The median growth fund (61 to 80% in growth assets) was up 1.1%, and that took the return for the first nine months of the financial year to 6.9%, more than offsetting the entire loss of 3.3% in FY22.

Chant West Senior Investment Research Manager, Mano Mohankumar, says that despite the initial market turbulence following the collapse of Silicon Valley Bank, international shares and bond markets ended the month of March in positive territory. "International shares were up 2.5% in hedged terms and 3.9% unhedged. The Australian share market was more subdued, however, posting a small loss of 0.2%. With bond yields falling over the month, Australian and international bonds surged 3.2% and 2.1%, respectively.

"The end of March marks three years since the COVID-induced market low of March 2020 and, despite the challenging economic backdrop, the median growth fund has gained an impressive 29% over that period. Even when we factor in the sharp falls in early 2020, super funds are up nearly 15% since the pre-COVID high which was struck at the end of January 2020. That's a commendable result under the circumstances.

"The collapse of Silicon Valley Bank in the US followed soon after by the government-brokered rescue purchase of Credit Suisse by UBS resulted in share market falls over the first half of March. However, this didn't prevent most international share markets from delivering positive returns over the month. In light of slowing inflation in the US, the Federal Reserve raised interest rates last month by just 0.25%, leading to expectations that the rate rise cycle may soon come to an end. The Fed also expressed its confidence in the 'strength and resilience' of the US banking system. The Bank of England also raised its policy rate by 0.25% while indicating that further rate hikes can be expected to tame higher than expected inflation. Amid the turmoil in the banking sector, the European Central Bank increased interest rates by another 0.5%, stating that inflation poses a bigger threat to the economy than the unrest in the banking sector.

"Closer to home, China's reopening of its economy and easing of regulatory pressures on technology companies generated positive sentiment. In Australia, the Reserve Bank kept the official cash rate on hold at 3.6% earlier this month, after ten successive increases."

Table 1 compares the median performance to the end of March 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 31 March 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	1.0	4.8	10.1	0.2	12.6	7.9	9.2	9.4	7.0
High Growth	81 – 95	1.0	4.2	8.7	1.0	11.2	7.4	8.5	8.8	7.0
Growth	61 – 80	1.1	3.6	6.9	1.1	8.9	6.1	7.1	7.5	6.3
Balanced	41 – 60	1.1	3.0	5.4	1.1	6.4	4.8	5.5	6.0	5.6
Conservative	21 – 40	1.1	2.4	4.0	1.4	4.0	3.5	4.1	4.7	4.8

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 31 March 2023)

	Median Growth Assets	1 Mth (%)	3 Mths (%)	FYTD (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	Since Jan 2014 (% pa)
2000s	90	1.3	4.1	9.1	-0.1	10.7	6.8	n.a.	n.a.
1990s	90	1.3	4.2	8.8	-0.6	11.0	6.9	7.5	7.0
1980s	90	1.3	4.2	9.0	-0.6	11.0	6.9	7.6	7.2
1970s	90	1.3	4.2	8.9	-0.6	10.8	6.8	7.5	7.1
1960s	76	1.4	3.9	7.5	-0.7	8.7	5.8	6.7	6.2
1950s	53	1.5	3.6	5.7	-0.2	5.2	4.6	4.1	4.3
1940s	46	1.4	3.3	5.7	-0.3	4.8	4.2	4.5	4.5
MySuper Growth	71	1.2	3.7	6.9	1.1	8.8	6.2	7.2	7.0

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

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 and later – 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.

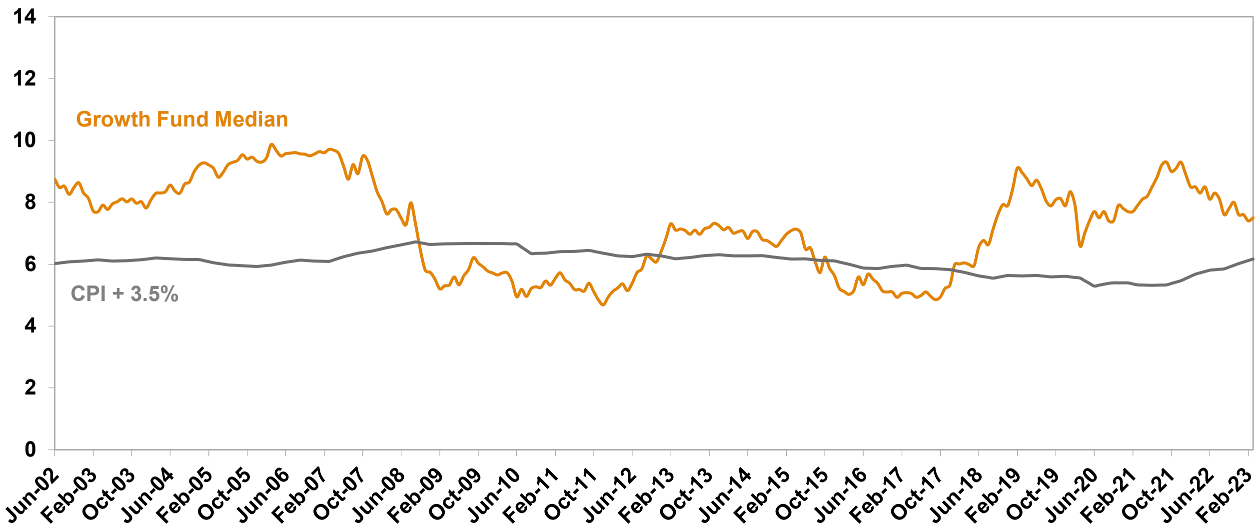
The oldest cohorts (those born in the 1950s or earlier) are relatively less exposed to growth assets, so you would expect them to underperform the MySuper Growth median over longer periods. Capital preservation is more important at those ages, so while they miss out on the full benefit in rising markets, older members in retail lifecycle options are generally better protected in the event of market weakness.

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 the March 2023 quarter is an estimate.

Source: Chant West

Media Release

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.

International share market returns in this media release are sourced from MSCI. This data is the property of MSCI. No use or distribution without written consent. Data provided "as is" without any warranties. MSCI assumes no liability for or in connection with the data. Product is not sponsored, endorsed, sold or promoted by MSCI. Please see complete MSCI disclaimer.