Super funds off to a positive start in FY25 despite early August jitters

The new financial year was initially off to a flying start for super funds, with the median growth fund (61 to 80% in growth assets) up 2% in July. However, in early August, both international and domestic share markets experienced the jitters on the back of the Bank of Japan raising interest rates and fears of a recession in the US. Since then, markets have recouped much of those losses, with Chant West estimating that the median growth fund is only down 0.6% in August so far, meaning that member balances are up about 1.4% from where they finished FY24.

Chant West Senior Investment Research Manager, Mano Mohankumar, says both share and bond markets were up in July largely on the back of softer inflation data in the US, followed by the Federal Reserve hinting that an interest rate cut could come at its September meeting: "Over the month, Australian shares surged 4.1%. International shares were up 1.2% in hedged terms but the depreciation of the Australian dollar powered the return in unhedged terms to 4.1%. On average, super funds have about 70% of their international shares exposure unhedged. Over the month, there was a rotation in the market with the value style significantly outperforming growth stocks. With bond yields falling in July, bonds too had a strong month with Australian and international bonds up 1.5% and 1.9%, respectively.

"With volatility returning to share markets in early August, it's an opportune time to again remind super fund members of the importance of maintaining a long-term focus and not panicking. We know from past experience that share markets, which remain the main drivers of growth fund performance with a 55% allocation on average, can be incredibly resilient. Members should also take comfort in the fact that most have their super invested in well-diversified portfolios that have their investment exposure spread across a wide range of asset classes. This helps provide a smoother return journey by cushioning the blow during periods of share market volatility, while capturing a meaningful proportion of the upside when share markets perform well."

The table below compares the median performance to the end of July 2024 for each of the traditional diversified risk categories in Chant West's Super Fund Performance 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 July 2024)

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	2.8	5.1	2.8	13.0	6.7	8.4	8.9	8.9	9.3
High Growth	81 – 95	2.3	4.3	2.3	11.2	6.0	7.8	8.6	8.7	8.8
Growth	61 – 80	2.0	3.8	2.0	9.6	5.1	6.4	7.1	7.3	7.9
Balanced	41 – 60	1.6	3.3	1.6	7.8	3.8	4.9	5.7	5.8	6.6
Conservative	21 – 40	1.3	2.6	1.3	5.9	2.7	3.3	4.0	4.4	5.3

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 been operating for just over 10 years, so when considering performance, Mohankumar says 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 2.7%, 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 7.3% 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)

Source: Chant West

Note: The CPI figure for July 2024 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.

About Chant West

Senior Investment Research Manager Mano Mohankumar and General Manager Ian Fryer are available to discuss this release. Please call Darlene White on 0438 041 032 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.