SUPERRATINGS MEDIA RELEASE

Wednesday 19 July 2017

$140 BILLION WINDFALL FOR AUSTRALIANS

	Accumulation Returns	Pension Returns
Month of June 2017	▼ 0.1%	▼ 0.1%
Financial Year return to 30 June 2017	▲ 10.4%	▲ 11.4%
Rolling 3-year return to 30 June 2017	▲ 7.5%	▲ 8.1%
Rolling 5-year return to 30 June 2017	▲ 10.0%	▲ 11.0%
Rolling 7-year return to 30 June 2017	▲ 8.2%	▲ 9.3%
Rolling 10-year return to 30 June 2017	▲ 4.8%	▲ 5.5%

Median Balanced Option refers to 'Balanced' options with exposure to growth style assets of between 60% and 76%. Approximately 60% to 70% of Australians in our major funds are invested in their fund's default investment option, which in most cases is the balanced investment option. Returns are net of investment fees, tax and implicit asset-based administration fees.

INVESTORS REWARDED VIA SHARES AND UNLISTED ASSETS

Australians in mainstream superannuation funds are set for a windfall as SuperRatings exclusively reveals that the average fund return for last financial year topped 10.4%. As statements go out over the next few weeks, an estimated $140 billion will have been added to super accounts in investment earnings for the year, the eighth consecutive year that super funds have delivered positive returns to members.

Once again, industry funds have dominated the performance tables, with the leading fund, the $23 billion HOSTPLUS, delivering a return of some 13.2% to its 1 million members. HOSTPLUS was closely followed by Australia's largest fund, the $114 billion behemoth, AustralianSuper, who delivered some 12.4% to its 2.2 million members.

As SuperRatings' Chairman, Jeff Bresnahan, said "At a time when inflation hovers below 2% per annum, Australian super funds continue to far exceed expectations, with accrued earnings of well over 100% since the end of the GFC. Over the last 5 years alone, funds have averaged 10% earnings every year, more than erasing the pain of the GFC and putting retirees in a significantly improved position than they could ever have hoped for".

Funds that excelled this year tended to go against the investment trend, by having higher allocations to unlisted assets, which traditionally come at a significantly higher cost than the increasingly popular passive strategies. This once again debunks the argument that low cost investment strategies are good for Australians. Low cost passive strategies will only guarantee chronic regular underperformance, which will impact retirement benefits for all Australians and undermine the superannuation system. As Chief Investment Officer of this year's leading fund, Sam Sicilia of HOSTPLUS, said "Even though allocations to unlisted assets and the active management of equities and credit are more expensive than their passive alternatives, it results in a higher net benefit to members, which is really what matters". To support his claim, HOSTPLUS points to the fact that they have delivered top-quartile performance over short, medium and long-term investment horizons.

SuperRatings welcomes media enquiries regarding any of our research or information held in our database.

We are also able to provide commentary and customised tables/graphs for your use.

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Bresnahan went on to say "Global shares have been the main driver of returns over the decade, and 2016-17 was no exception, with the MSCI World Index returning 15.4%, versus 14.1% from ASX 200 shares". As Australian shares represent only four per cent of the global market, are heavily concentrated in financials and with limited exposure to sectors such as consumer shares and technology, it is clear when you look at super fund returns since the GFC, that diversification via global investing benefits members. Whilst accurate figures are difficult to obtain from the ATO, it is believed that SMSFs will have significantly underperformed against mainstream super funds over that period due to their lack of diversification.

The top 10 performing funds in 2016/17 covered over 6 million Australians and all comfortably exceeded the SuperRatings' Industry Benchmark of 10.4%.

TOP PERFORMING FUNDS FOR THE 2016/17 FINANCIAL YEAR

Rank	Fund & Option	2016/17 Return
1	HOSTPLUS – Balanced *	▲13.2%
2	AustralianSuper - Balanced	▲12.4%
3	Sunsuper for Life - Balanced	▲12.3%
4	First State Super - Growth	▲12.3%
5	Club Plus Super - MySuper	▲12.2%
6	Intrust Core Super - MySuper	▲12.1%
7	Equip MyFuture – Balanced Growth	▲11.9%
8	Cbus – Growth (Cbus MySuper) *	▲11.9%
9	Kinetic Super – Growth	▲11.9%
10	Catholic Super - Balanced	▲11.8%
	SR50 Balanced Index Return^	▲10.4%

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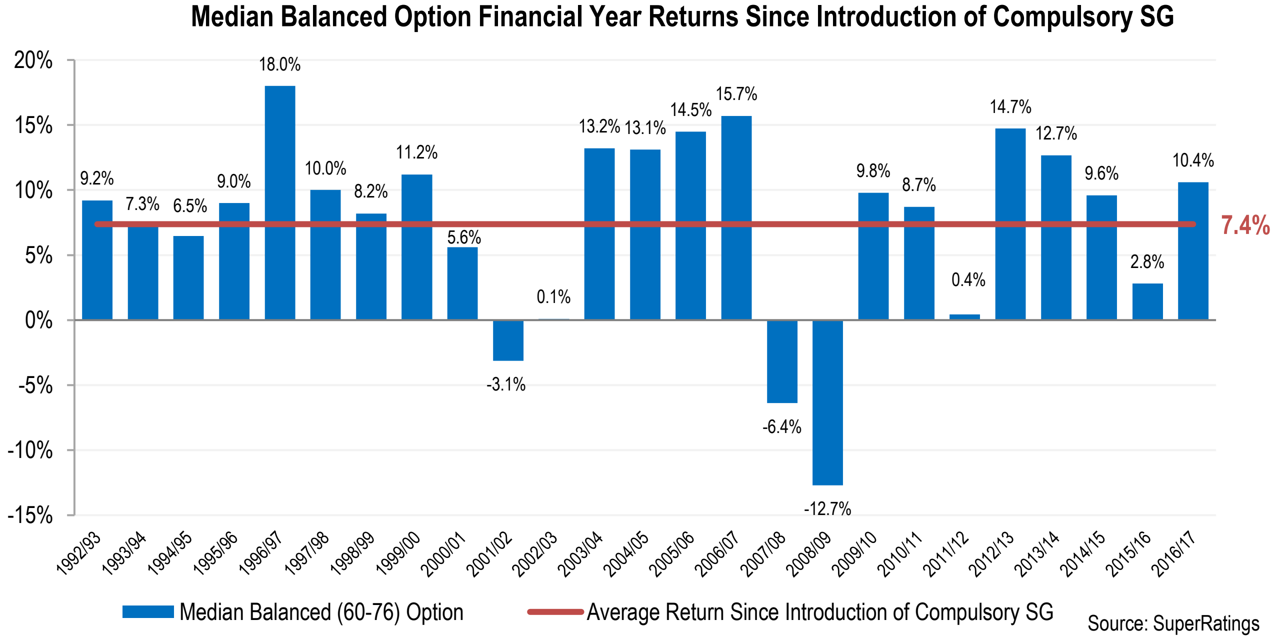
"The return to double-digit returns will hopefully provide a critical psychological boost to investors, who have faced considerable uncertainty over the past 12 months," said Mr Bresnahan. "Consumer sentiment is at its weakest since August 2016 when the RBA cut rates, and June saw a sharp fall in confidence around the broader economy. At the very least, Australians can have faith in our superannuation system, which has now built up an enviable track record."

With only two moves in the past two years – both of them down – the RBA has been waiting for the right moment to begin lifting. At its July meeting, the Bank reiterated its concerns about high levels of Chinese debt, low core inflation and mixed labour market conditions, while upping its warning on low wage growth and high levels of household debt, which remain key long-term issues.

What is extraordinary is the success of the diversified Balanced options within the superannuation system. In 25 years we have seen just three negative returns and effectively only one of any materiality, that being the 12.7% loss in 2008/09 at the height of the GFC. Over the same period we have seen 22 years of positive returns, including 10 of which resulted in double digit returns. $100,000 invested in a balanced option in June 1992 would have grown to some $581,000, a compound annual growth rate of some 7.4%. By comparison, inflation over the same period has been less than 2.5% per annum.

PERFORMANCE OF SUPER SINCE THE INTRODUCTION OF SG IN 1992



Source: SuperRatings

LOCAL MARKETS END THE FINANCIAL YEAR IN NEUTRAL

The Australian market struggled through June as local investors experienced an anti-climactic end to what has been an otherwise thrilling financial year. The ASX 200 Accumulation Index managed a meagre 0.2%, led by the Healthcare (+6.1%) and Financial (+1.6%) sectors. Materials, despite being the leader over 12 months (+26.9%) has been trending downwards since the end of January as key commodities have fallen. Sirtex Medical, which had a very forgettable 12 months, was the highest performer in June (+35.5) as investors reacted positively to cost-cutting and a write-off of previous R&D expenditure. A-REITs had another tough month in June, losing 4.5% over the month and 5.6% over the year. Retail-focused REITs have felt the heat ahead of Amazon's arrival in Australia, with Westfield Corporation down -22.0% and Vicinity Centres down -17.7% over the year.

The unstoppable US market finally showed signs of slowing in June. The S&P 500 gained 0.5% in USD terms, pushing to a new record high, but fell 2.3% in AUD terms with a Fed rate hike unable to stave off US dollar weakness. The sectors seen as presenting the most opportunities over the year have been banks and financial sector shares, which were boosted by rate rises and Trump's plan for financial market deregulation. Other attractive areas have been those cyclical sectors such as materials and consumer discretionary shares, as well as the big tech names Google, Apple, Facebook and Amazon (known as GAFA). Asian markets were lagging the world in the wake of the initial post-Trump election rally in the latter two months of 2016, but were able to make up lost ground in 2017, with the MSCI Asia Ex Japan Index delivering 23.0% over the year, due in part to Asian bank exposure to US Fed rate hikes.

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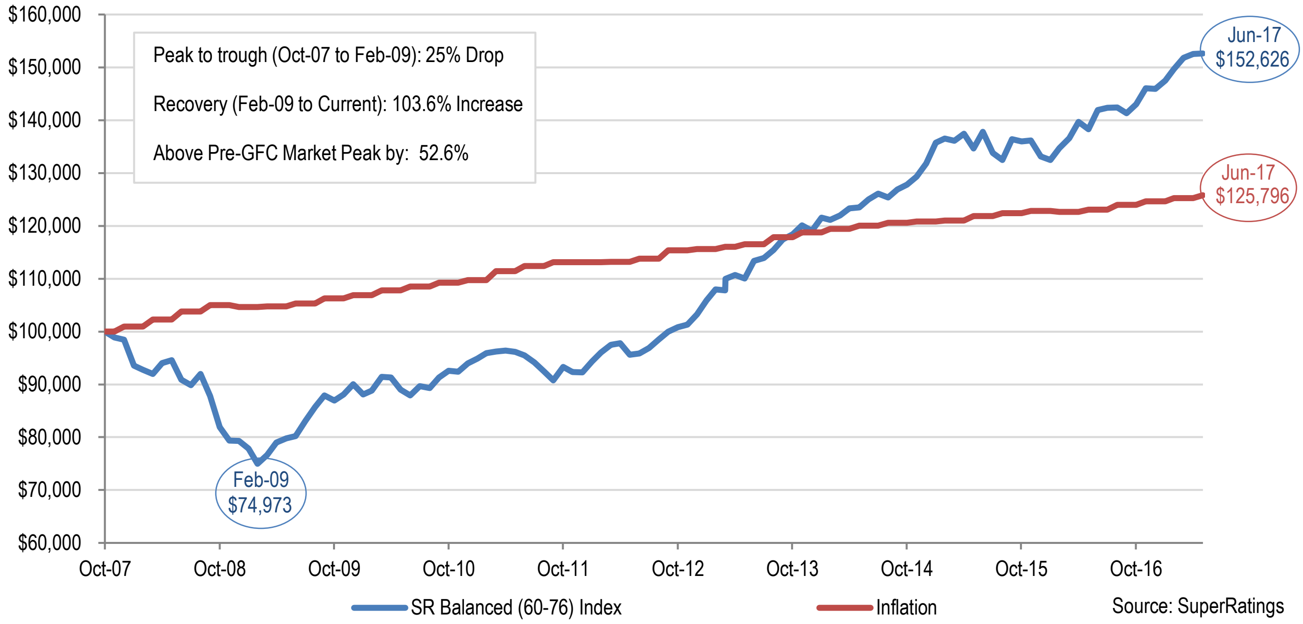
SUPER RETURNS OVER 100% SINCE THE END OF THE GFC

After the median Balanced fund lost 25% of its value between October 2007 and February 2009, we have seen the median fund rally 103.6%. This now places the median Balanced fund 52.6% above the pre-GFC peak. This is before contributions are considered. However, the range of returns delivered by funds remains a key differentiator across the market. The top performing Balanced fund added a further $24,855 or 16.3% to the median fund shown below, whilst there was a $56,112 gap between the top and bottom performing fund, which meant that the bottom performing fund did not even exceed inflation over the past 10 years.

Growth in $100,000 Invested 1 October 2007 to 30 June 2017



2016-17 MARKS END OF EASING CYCLE

The end of the central bank easing cycle appeared at the end of 2016, and has been strengthened by recent action, including the Fed's June rate rise. However, further action will be gradual and subject to a sustained lift in core inflation in Europe and the US. In contrast, Australia's tighter monetary policy settings relative to the rest of the world, along with declining commodity prices, led to lower returns, and in particular a noticeable divergence in global and domestic performance since 2013, with Australian shares the laggards.

Longer-term returns for super funds continue to sit close to inflation targets, with the seven-year return sitting at an estimated 8.2% p.a. (above most funds' CPI targets). The 10-year return moved slightly lower to 4.8% p.a. in June, although it remains impacted by the GFC, which occurred nearly ten years ago. As the GFC moves out of the rolling 10-year return period, long-term returns will improve and are likely to move in line with funds' targets.

Release Ends

ADDITIONAL RETURN AND DATABASE INFORMATION

We believe our database to be the largest in Australia dealing with multi-employer superannuation funds, where the great majority of Australians have their retirement benefits invested. We update our website monthly to show the Top 10 performing funds together with the medians over all time periods for the following investment options: Balanced, MySuper, Growth, Australian Shares, International Shares, Capital Stable, Property, Conservative Balanced, High Growth, Secure, Diversified Fixed Interest and Cash.

About SuperRatings

SuperRatings Pty Ltd ABN 95 100 192 283 AFSL No. 311880 (SuperRatings) is a superannuation research house with specialist areas of expertise that was originally established in 2002. From 1 July 2011, SuperRatings became a fully owned subsidiary of the entity currently registered as Lonsec Fiscal Holdings Pty Ltd, a privately owned and independent entity with a multi-brand strategy of providing leading financial services research and investment execution. SuperRatings believes that professional financial services institutions and members need informed opinions on the best superannuation and pension financial products. To meet this need, SuperRatings has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of superannuation financial products. No fee is paid by superannuation and pension funds to SuperRatings for reviewing and rating superannuation and pension financial products.