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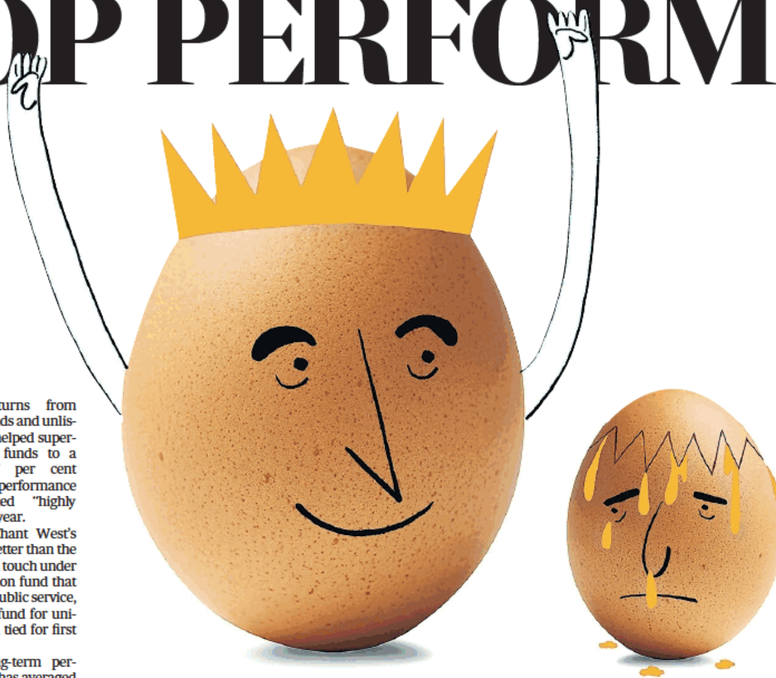
SUPER'S TOP PERFORMERS



Returns The most successful funds may have different investment philosophies and portfolio structures, but they all benefit from scale and a measured approach to taking risks, writes **Joanna Mather**.

ILLUSTRATION: SIMON LETCH

Healthy returns from shares, bonds and unlisted assets helped superannuation funds to a median 7 per cent return, a performance that looked "highly improbable" at the start of the year.

The best performers in Chant West's "growth" category did much better than the average, delivering returns of a touch under 10 per cent. QSuper, a $91 billion fund that originated in the Queensland public service, and UniSuper, an $80 billion fund for university staff and their families, tied for first place.

Both are also strong long-term performers. QSuper, for instance, has averaged 9.5 per cent over the past 10 years, which compares to the median growth fund at 8.8 per cent.

QSuper chief investment officer Brad Holzberger says the national conversation about super fund returns should be less about one-year results and more about consistency.

This is especially the case given most experts do not believe the bull run can continue, he says. "We're as proud of the consistency as this year's outcome.

"In the last decade when long-term returns have been high I think people have been willing to accept volatility because it has always bounced back, and bounced back quickly. But going forward, the challenge for the industry will be maintaining the faith of members when things get tough."

Chant West's "growth" category includes funds with allocations to growth assets of between 61 and 80 per cent (many funds call schemes that fall into this band "balanced").

Most Australians have their super invested in this way. The median growth fund returned 7 per cent for the year to June 30. That's down on a decade-long average of 8.7 per cent and the 2018 result of 9.4 per cent.

Super has now notched up 10 consecutive years of positive returns and easily outperformed the average return objective, which is consumer price inflation plus 3.5 per cent a year over five-year periods.

Chant West senior investment manager Mano Mohankumar says the lower result this financial year is largely because share market and unlisted asset returns weren't quite as high as the year before. But given where share markets were at the end of 2018, members should be very happy.

Although QSuper and Unisuper have very different investment strategies, each managed to return 9.9 per cent.

UniSuper has a strong focus on listed assets and, unlike most non-profit funds, invests little in unlisted assets. The fund says a series of "improbable" domestic and foreign events sparked share rallies that helped propel its result close to double-digit territory.

The Reserve Bank of Australia's decision to cut interest rates to a record low underpinned a rally in Australian shares, including in what UniSuper calls its "fortress" assets – Transurban, Sydney Airport, gas pipeline business APA Group and ASX.

"This type of outcome was looking near impossible in December 2018 when 12-month returns were close to zero, so the last six months have been quite remarkable, driven by developments that would have been considered highly improbable this time last year," UniSuper says.

Mano Mohankumar: Happy members.

UniSuper is only open to people employed in higher education and their families. Unlike other large not-for-profit funds, it prefers to gain exposure to property and infrastructure through listed vehicles, Mohankumar says.

"This is unique for an industry fund; it only has 7 per cent in unlisted assets.

"UniSuper believes that the listed market route has enabled it to build a portfolio of higher quality property and infrastructure assets at a lower price."

Bonds were the strongest contributor to QSuper's returns, then infrastructure. QSuper is idiosyncratic in that it has a large exposure to long-duration bonds, which have registered strong gains as interest rates have fallen.

"QSuper has a much lower allocation to listed equities at about 28 per cent versus 52 per cent for its peers," Mohankumar says. "However, it invests a meaningful amount in long-dated bonds which carry equity-like risk but are a better diversifier against equity market falls than traditional bonds."

Even so, QSuper is no "one-trick pony", Holzberger says. "We didn't make some big bet that was different to others and it has paid off," he says. "What we've done is have the courage of our convictions. We've taken different decisions around asset allocations and stuck to them.

"Our listed equities, bonds and unlisted assets are all a bit distinctive and each has paid off."

The weakest performer in Chant West's league table – Maritime Super's Moderate option (which is also its MySuper option) – returned 4.3 per cent.

The fund's chief executive, Peter Robertson, is unrattled by coming in last. He says Maritime Super's investment strategies are conservative by design.

"The fund invests for long-term growth, with a bias toward a defensive strategy and capital preservation," he says. "The board's priority is delivering consistent long-term returns rather than out-performance in any one year or our position in a survey."

What most "growth" and "balanced" funds have in common is large allocations to domestic and international shares. It is these investments that have done much of the heavy lifting toward the unbroken decade-long run of positive returns in super.

At 11.4 per cent, Australian shares again produced healthy results in fiscal year 2019. Australian listed property was the strongest performing asset sector of the year, returning 19.4 per cent. Bonds also performed well: Australian bonds were up 9.6 per cent and global bonds gained 7.2 per cent.

Not surprisingly given interest rates are so low, cash was the worst performer with a yield of just 2 per cent.

Robertson says half of Maritime Super's members are over 50 and a third have account balances worth more than $200,000. Avoiding any large losses before retirement is therefore paramount.

"Funds with a lower age profile can adopt more aggressive investment strategies but for us ensuring that the chance for negative returns is minimised is a key priority," Robertson says, adding that when Rainmaker ranked Maritime's MySuper returns against

Consistency: QSuper's Brad Holzberger and Charles Woodhouse. PHOTO: ATTILA CSASZAR

Life Stage returns

Retail fund lifestage strategy median performance* (% pa)

	1yr	3yrs	5yrs	Since Jan 1, 2014	Median growth asset allocation
1990s	7.7	10.1	8.2	8.2	88.0
1980s	7.8	10.0	8.3	8.3	87.0
1970s	7.8	10.0	8.3	8.1	87.0
1960s	7.0	8.1	7.1	7.0	67.0
1950s	6.0	6.1	5.6	5.8	45.0
1940s	5.8	5.7	5.2	5.3	40.0
MySuper growth median	7.1	9.1	8.2	8.1	71.0
Retail fund growth median	6.9	8.5	7.4	7.3	73.0

*Net of investment fees, administration fees and tax. SOURCE: CHANT WEST

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Find your fund

Performance of growth funds* to Jun 30, 2019 (%pa)

	1yr	5yrs	10yrs
QSuper Balanced	9.9	9.0	9.5
UniSuper Balanced	9.9	9.4	9.6
Media Super	9.4	9.2	8.9
Media Super Balanced	8.8	8.5	8.5
AustralianSuper Balanced	8.7	9.5	9.8
Tasplan Balanced	8.6	8.1	8.5
Sunsuper Balanced	8.6	8.9	9.1
NGS Super High	8.3	9.1	9.5
IOOF Balanced Investor Trust	8.2	7.9	-
VicSuper (MySuper)	8.2	8.2	9.2
VicSuper Balanced	7.8	7.6	8.4
First State Super	7.7	8.3	8.8
PSSap MySuper Balanced	7.7	8.0	8.5
MTAA My AutoSuper (Balanced)	7.7	9.0	7.5
MLC Horizon 4	7.6	7.9	9.0
EISS Balanced	7.6	7.0	8.0
CBA Super Balanced	7.5	6.6	8.3
Legal Super	7.5	9.1	9.6
Plum Pre-Mixed Moderate	7.5	7.4	8.7
Mercer	7.5	7.5	8.1
AMP RIL Balanced	7.5	7.1	8.3
Vision Super Balanced	7.4	8.2	8.6
IOOF MultiMix Balanced	7.3	8.0	8.4
LGIAsuper Diversified	7.3	7.8	8.9
HESTA Core Pool	7.3	8.3	9.1
Legal Super MySuper Balanced	7.2	8.2	8.8
NGS Super Diversified (MySuper)	7.2	8.2	8.5
Asgard SMA Balanced	7.2	7.2	8.1
TelstraSuper Balanced	7.1	7.6	9.1
Plum Active - Moderate	7.0	7.7	8.6
Vision Super Balanced	7.0	7.4	8.3
Statewide Super MySuper	7.0	9.2	-
Cbus (Cbus MySuper)	7.0	9.0	9.4
Prime Super Managed	6.9	10.1	8.8
BT Multi-Manager Balanced	6.9	7.1	8.4
Statewide Super Active Balanced	6.9	8.7	-
CareSuper Balanced	6.9	8.7	9.3
Club Plus MySuper/Balanced	6.9	8.1	8.1
MLC Moderate	6.8	7.4	8.7
Aon smartMonday Balanced	6.8	7.4	8.3
Hostplus Balanced	6.8	9.7	9.7
LGSS Balanced	6.7	8.0	8.9
Russell Balanced Opportunities	6.7	7.5	8.7
ESSSuper	6.5	7.0	8.5
Prime Super MySuper	6.3	8.5	8.5
OnePath OptiMix Balanced	6.2	6.7	7.5
Rest Diversified	6.2	8.0	9.2
Mine Super	6.2	7.0	8.3
Aust Catholic Super & Retirement Balanced	6.1	6.9	7.8
AMP Future Directions Balanced	6.1	7.7	8.8
Equip Balanced	6.1	8.3	9.0
Equip MySuper	6.0	7.9	-
Rest Core	5.9	7.4	9.0
Russell Balanced	5.9	7.1	8.7
CFS FirstChoice Balanced	5.8	7.1	8.4
CFS FirstChoice	5.7	7.6	9.1
Intrust Super Balanced	5.6	8.5	9.0
Energy Super MySuper	5.6	8.2	-
Energy Super Balanced	5.6	8.2	8.9
REI Super Balanced (MySuper)	5.5	7.5	8.6
Maritime Super Balanced	5.4	7.0	8.3
Catholic Super Moderately Aggressive	5.4	9.1	9.8
Catholic Super Balanced (MySuper)	5.0	8.4	9.0
BUSSQ Balanced	4.9	8.0	8.8
Maritime Super Moderate	4.3	5.9	-
Median	**7.0**	**8.0**	**8.7**

* 61% to 80% allocation to growth assets. Note: Net of investment fees and tax, before administration fees. SOURCE: CHANT WEST

investment risk, it came in third. Maritime's is "one of the least volatile, that is, stable, MySuper products in the market", according to Rainmaker.

As well as coming in at the top of this year's results, QSuper and UniSuper are among the top performers over the long term. So, too, are AustralianSuper and Hostplus, Mohankumar says.

Each has a different approach to investment philosophy, portfolio structure and the make-up of their investment team.

Something all four have in common, though, is scale. "One of the benefits of scale is that it enables these funds to access investments such as unlisted assets either directly or via co-investments, which lowers costs," Mohankumar says.

"Hostplus, for example, has the advantage of a very young member base and many smaller employers so its liquidity requirements are much less than other funds.

"This in turn means it can invest heavily in unlisted assets while limiting exposure to cash and fixed interest, a model that has worked well for them for many years."

Unlisted infrastructure and private equity did not reach the heights of recent years but were up 12.7 per cent and 10.5 per cent respectively in the last financial year.

Charles Woodhouse is responsible for QSuper's investment in infrastructure, real estate and private equity. He has been promoted to CIO and will take over from Holzberger when he retires in September.

Woodhouse has no plans to change tack, although he foresees an increasingly vital role for unlisted assets.

"It's our view that at some point … we'll find ourselves in a low-return environment, where cash is returning 1 per cent and bonds 1 to 2 per cent," he says.

"Equity returns could be more modest, maybe in single digits, but QSuper has an advantage in that a third of the portfolio is in unlisted assets."

Holzberger says the trick is finding the right assets for the right price. "We don't think the solution is for members of super funds not to take risk. If you take no risk the returns are just going to be diabolically low. What we have to do is make sure we take risk wisely." SI

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Few cheers as local shares hit a record

The cut-through

Patrick Commins

The sharemarket hit a record peak this week. It took a long time – close to 12 years since the high in late 2007 – but we got there.

And yet my inbox was remarkably clear of gloating missives from money managers. Brokers stayed mum. It's almost as if it's politically incorrect to celebrate a meaningful milestone for the Australian sharemarket.

A fellow columnist in the Nine stable (which publishes this paper) said the lack of cheer around the new peak "is in part, because the previous record in November 2007 was set weeks before the market plunged into a crisis that pushed the entire financial system to the brink of collapse".

Well, I suppose so. But equities are growth assets. The broad trend through time is upwards as businesses and economies grow. In that context, the sharemarket was always going to pass the previous peak at some point – that doesn't mean we are on the brink of another crisis.

It's called progress, and it happens. The talking point is that it took us so long to get here and why we are so down about it.

It's entirely possible that investors are still scarred by the GFC, though few investors under 35 are likely to have been personally affected, unless via their parents.

> *It's hard to combat this air of gloom that pervades … A sense that not all is right.*

One of the aspects of this market that does concern and confuse investors great and small is that we are reaching new highs just as central banks are signalling they are worried.

This week we reached a record sharemarket high a day before the RBA's Philip Lowe confirmed that we can all expect an "extended period of low rates" in Australia. And that was after cutting twice in June and July to 1 per cent, with the market expecting another by the end of the year.

The US Federal Reserve, too, is set to ease policy next week – perhaps by as much as half a percentage point, rather than the usual quarter point.

Fed boss Jerome Powell, like the RBA's Lowe, remains pretty upbeat around the economy. Brad Boyd, a bond fund manager at Payden & Rygel, reckons Powell is struggling to clearly articulate why he is cutting. Perhaps because the relatively green Fed boss is not 100 per cent sure himself.

This is freaking investors out, Bank of America-Merrill Lynch chief global economist Ethan Harris says. "The confusing message has triggered a steady flow of questions from clients," Harris writes. "Is the Fed politically compromised? Does the Fed know something bad about the economy that the rest of us don't see?"

Boyd argues the global outlook is OK. There's still growth; it's just not the above-trend growth of 2017.

For example, this week the International Monetary Fund's latest world economic outlook forecast growth of 3.2 per cent in 2019 and then 3.5 per cent in 2020. This was a touch lower than the previous estimate, but it's not "bad".

Investors are confused the market is hitting highs just as central banks seem worried.

"We think globally it's not a dramatically positive picture, but it's a stable and solid one," the Los Angeles-based Boyd says.

Still, it's hard to combat this air of gloom that pervades the markets and the business world. A sense that not all is right.

There is a "new normal" of low rates and low growth around the developed world, and a volatile and unpredictable US President is waging a trade and technology war with the world's second-largest economy, China.

Bill Maldonado is the chief investment officer for HSBC Global Asset Management for the Asia-Pacific. Based in Hong Kong, Maldonado meets investors of all stripes as well as business executives around the region.

"One of the things that we see is that there is a huge amount of pessimism among investors, whether they are retail or institutions or high net worth," Maldonado says. "I am amazed at how bearish corporates have become, even when the business they are in is not connected in any way with the trade dispute."

He gives the example of an Indian company selling consumable goods to a mass domestic market. They manufacture in India, and source all their inputs in the country.

The company is "about as unconnected from the trade dispute as you can get – yet they highlighted that as one of their key concerns," Maldonado says. "It becomes very difficult to understand, rationally, what is going on."

It's for these reasons that Maldonado says he and his team have done a lot of work thinking about what he and his team rather snappily refer to as "misplaced macro pessimism".

Maldonado reckons investors should be considering the "risk" that the world is not as badly placed as many seem to think.

Why is this a risk? Because it's not clear what impact a surprise upswing in growth might have on asset prices. Maybe we would get some inflation. A little would be OK. A lot, less so.

Falling bond yields around the world have underpinned a lot of this year's sharemarket climb. If that reversed, without matching earnings growth, that could put pressure on stock valuations and smash bond prices.

Maldonado warns against developed market government bonds, and Payden & Rygel's Boyd agrees. As such, equities remain "the only game in town", Maldonado says.

"You don't have any choice as an investor, but be alert to the upside as well as the downside risk," he says. "Keep an eye on inflation."

When everybody is looking one way, it's time to at least glance every now and then in the other direction. SI

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