

Superannuation performance

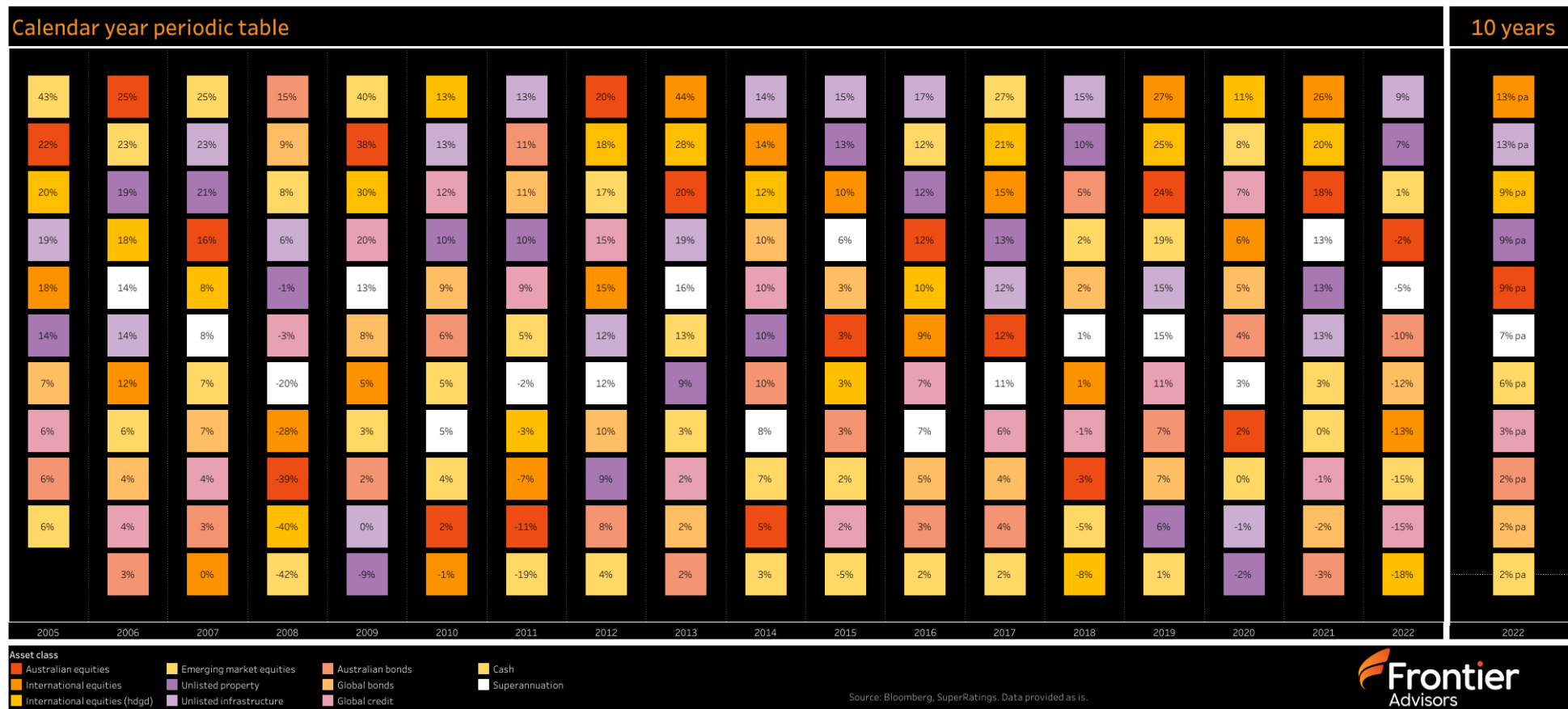
Calendar year 2022



Superannuation performance

The 2022 calendar year suffered through a bear market in equities, the highest inflation surge since the 1970s, and the worst year on record for investment grade fixed income. US stocks fell sharply with the technology sector taking the heaviest hit. The Treasury yield curve was the most inverted since the early 1980s, highlighting the risk of recession in 2023. Over the year unlisted infrastructure (9%), unlisted property (7%) and cash (1%) had positive returns, while every other asset class returned negative, ranging from Australian equities (-2%) to international equities – hedged (-18%).

Chart 1: Calendar year periodic return table



Superannuation performance

Performance was quite weak for MySuper options. Most funds produced negative returns, with performance across the top ten funds ranging from -3.6% to 1.7%. Strategies with a larger proportion of unlisted assets across infrastructure, property and private equity performed better.

Table 1 ranks performance of the top ten super funds covered by the SuperRatings reporting, for the one-year period to 31 December 2022. It includes growth asset ratio, size of the fund, as well as multiple rolling time periods through ten years.

Table 1: Performance to 31 December 2022

Fund	Growth asset ratio	Size \$m	Rolling 1 year %	Rolling 1 year rank	Rolling 3 year %	Rolling 3 year rank	Rolling 5 year %	Rolling 5 year rank	Rolling 10 year %	Rolling 10 year rank
Perpetual WealthFocus - Perpetual Balanced Growth	70	112	1.65	1	6.26	2	5.59	17	6.89	38
First Super - Balanced	66	3,181	0.08	2	4.93	7	5.75	13	7.64	19
CareSuper - Balanced	69	13,006	-2.00	3	4.79	10	5.91	10	8.29	6
Brighter Super Accum - Balanced	75	550	-2.17	4	3.93	26	5.56	19	7.35	27
Qantas Super Gateway - Growth	70	759	-2.22	5	6.35	1	6.98	1	7.73	17
Hostplus - Balanced	76	54,941	-2.48	6	5.80	3	6.91	2	9.10	1
Australian Retirement Trust - Super Savings - Balanced	70	7,463	-2.56	7	5.39	5	6.62	4	8.57	3
Mercer Super Trust - Mercer Select Growth	75	2,506	-3.38	8	4.02	21	5.70	14	-	
Plum - Pre-mixed Moderate	76	-	-3.57	9	4.42	13	5.41	22	7.36	26
ESSSuper Accum - Basic Growth	72	31	-3.64	10	5.12	6	6.51	5	-	
SuperRatings SR50 Balanced median	70	2,445	-4.76		3.96		5.38		7.47	

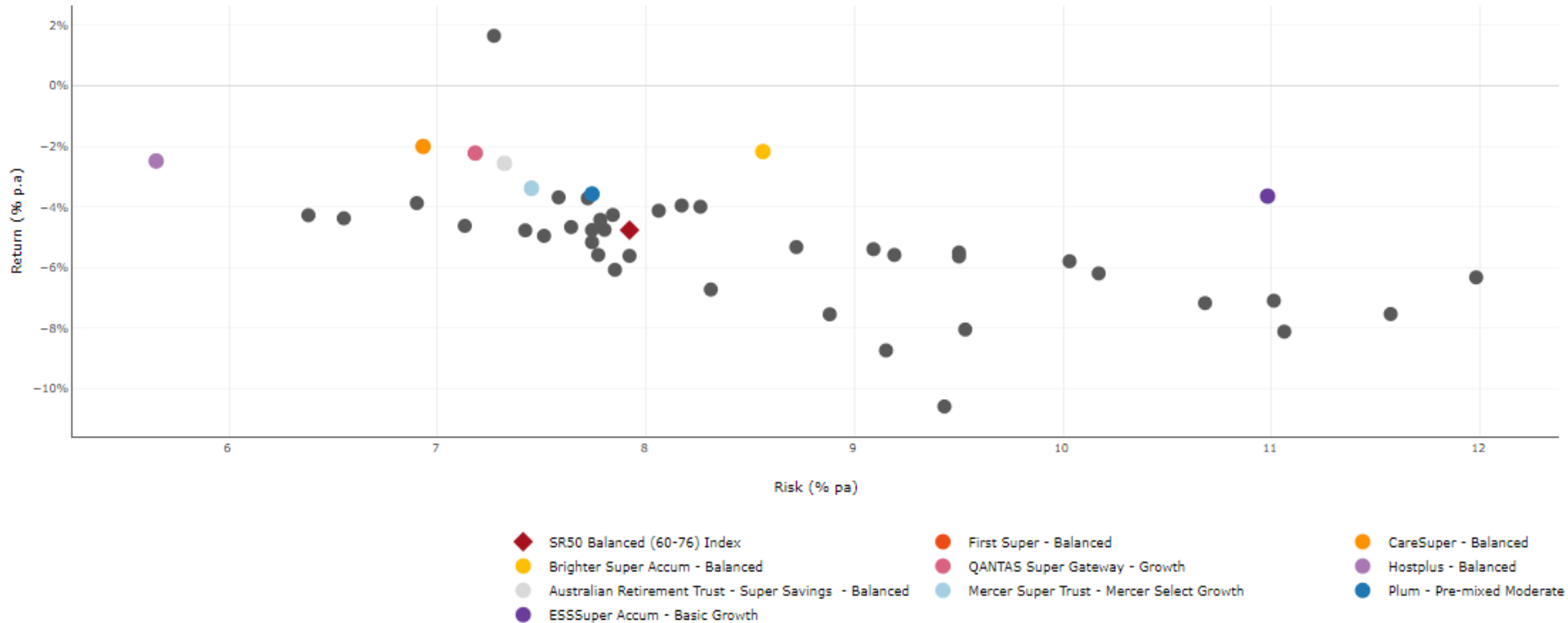
Source: SuperRatings

2022 performance

Risk and return

Chart 2 shows performance and risk as defined by standard deviation of returns through one-year to December 2022. The majority of the top ten funds exhibited lower standard deviation than the median with the exception of Brighter Super and ESSSuper Basic Growth.

Chart 2: SR50 Balanced Funds – Standard deviation versus return one-year to December 2022



Source: Frontier Advisors, SuperRatings, Balanced-SR50 Balanced (60-75) Index

2022 performance

Asset allocation

Based on the most recent asset allocations for the funds available, shown in table 2, funds with greater exposure to unlisted assets across private equity, property and infrastructure performed well (noting some funds classify these exposures as alternatives or other). Some of the top ten funds have not submitted timely allocation data to SuperRatings.

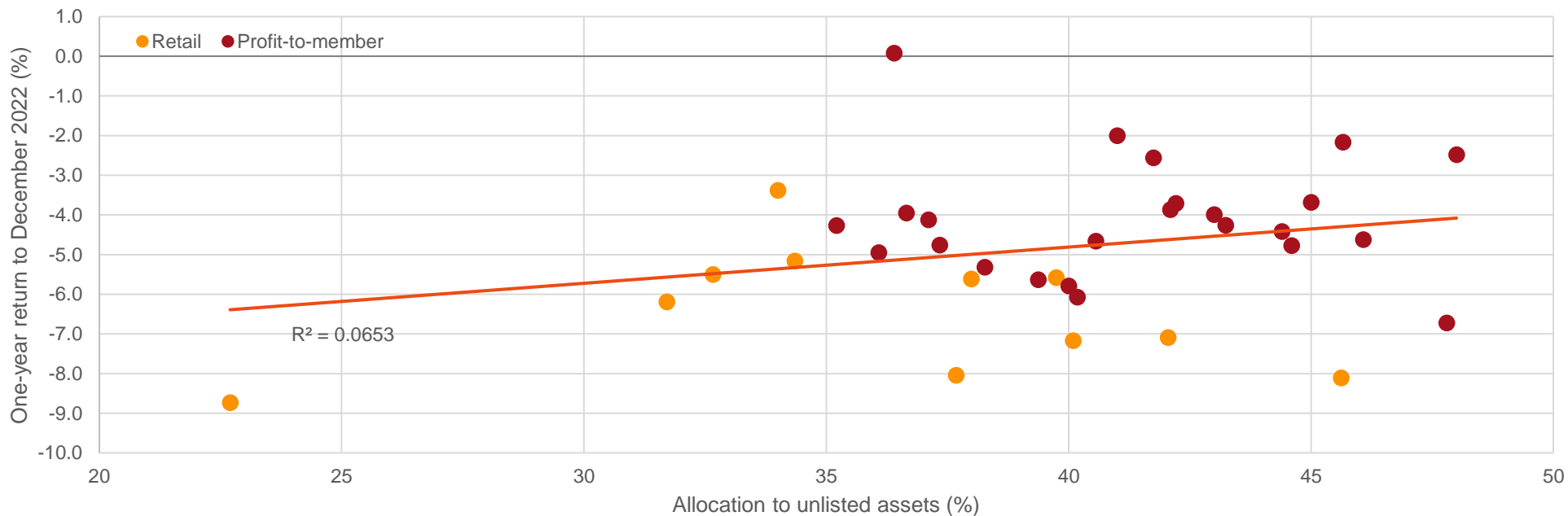
Table 2: Universe asset allocation

Option	Growth	Defensive	Australian shares	International shares	Private equity	Property	Infrastructure	Alternatives	Bonds	Cash	Other
Perpetual – Balanced	72.0%	28.0%	31.0%	26.0%	0.0%	8.0%	0.0%	0.0%	14.0%	7.0%	14.0%
First Super - Balanced	60.0%	40.0%	22.0%	19.6%	6.8%	10.0%	13.1%	0.0%	21.4%	7.1%	0.0%
CareSuper - Balanced	69.4%	30.6%	23.0%	26.0%	5.0%	10.0%	10.0%	14.0%	7.0%	5.0%	0.0%
Brighter Super - Balanced	77.7%	22.3%	24.2%	34.5%	0.0%	11.1%	11.4%	2.6%	9.9%	6.3%	0.0%
Qantas Super - Growth	70.0%	30.0%	27.5%	27.5%	0.0%	0.0%	0.0%	25.0%	18.0%	2.0%	0.0%
Hostplus - Balanced	75.1%	24.9%	22.8%	27.9%	9.5%	10.6%	9.2%	8.0%	4.1%	7.9%	0.0%
ART Super Savings - Balanced	73.8%	26.2%	26.3%	26.8%	6.5%	8.5%	10.5%	5.5%	13.0%	3.0%	0.0%
Mercer Select Growth	68.0%	32.0%	26.9%	23.6%	0.0%	10.4%	10.4%	4.3%	7.2%	7.2%	10.0%
Plum - Moderate	66.9%	33.1%	32.6%	25.7%	0.0%	4.2%	0.0%	8.7%	28.8%	0.0%	0.0%
Top quartile	73.8%	31.0%	28.2%	32.6%	6.1%	10.0%	10.0%	7.7%	21.4%	7.9%	4.8%
Median	71.1%	28.9%	24.9%	28.4%	0.0%	7.9%	5.1%	2.2%	15.1%	4.9%	0.0%
Bottom quartile	68.6%	26.2%	22.7%	25.5%	0.0%	6.2%	0.0%	0.0%	11.6%	3.0%	0.0%

Allocation to unlisted assets

Allocation to unlisted infrastructure, property and private equity were the most significant factors that contributed to absolute performance during 2022. While the coefficients of determination are not very high at 0.07, the line of best fit is upward sloping and shows a positive correlation with performance in diversified balanced portfolios throughout the year. These positive returns and correlations can be attributed to the managers' and funds' valuation processes, which involves the use of various methodologies. Although the valuation of unlisted assets are frequently criticised having shallower or no drawdowns in down markets, these assets are generally held longer term and often large, lumpy and illiquid and tend to be correlated with listed markets over the longer term despite short term differences.

Chart 3: Unlisted allocation – one-year to December 2022



Source: SuperRatings

Longer-term performance

Persistent outperformance

With superannuation a long-term investment, members should be looking for a fund with good performance consistency rather than just one good year. Table 3 examines the performance of the top ten funds over the ten years to December 2022. Only three of these funds were ranked in the top ten for the year just ended. Even more interestingly, four of the funds were below average over 2022.

AustralianSuper stands alone in terms of performance consistency in this analysis – it is the only fund which has outperformed the average fund in each of the last ten financial years. Somewhat unsurprisingly, given their younger membership demographic and subsequent higher allocation to growth assets, Hostplus has mostly appeared near the top or the bottom, in individual years – much more frequently in the former.

Most of these funds have had two or more years when their performance in a year has been below average. Only four funds have had at least one year when their return ranked them in the bottom quartile of peers.

The lesson from this analysis is that a single year of good performance does not necessarily result in good long-term performance. Similarly, a couple of underperforming years across a decade does not necessarily translate to poor longer-term returns.

Table 3: Ten year performance consistency

Fund	10 year		2021/22 year	Annual performance quartiles over the decade			
	Return (% p.a.)	Rank	Rank	Top	Second	Third	Bottom
Hostplus - Balanced	9.1	1	6	8	1	0	1
AustralianSuper - Balanced	8.8	2	24	7	3	0	0
Australian Retirement Trust - Super Savings - Balanced	8.6	3	7	7	1	2	0
UniSuper Accum (1) - Balanced	8.5	4	29	5	2	2	1
Cbus - Growth (MySuper)	8.4	5	25	6	2	2	0
CareSuper - Balanced	8.3	6	3	5	3	2	0
HESTA - Balanced Growth	8.1	7	12	4	4	2	0
Hostplus - Indexed Balanced	8.0	8	39	4	2	1	3
Vision Super - Balanced Growth	8.0	9	28	3	4	3	0
Aware Super - Growth	8.0	10	40	4	3	1	2

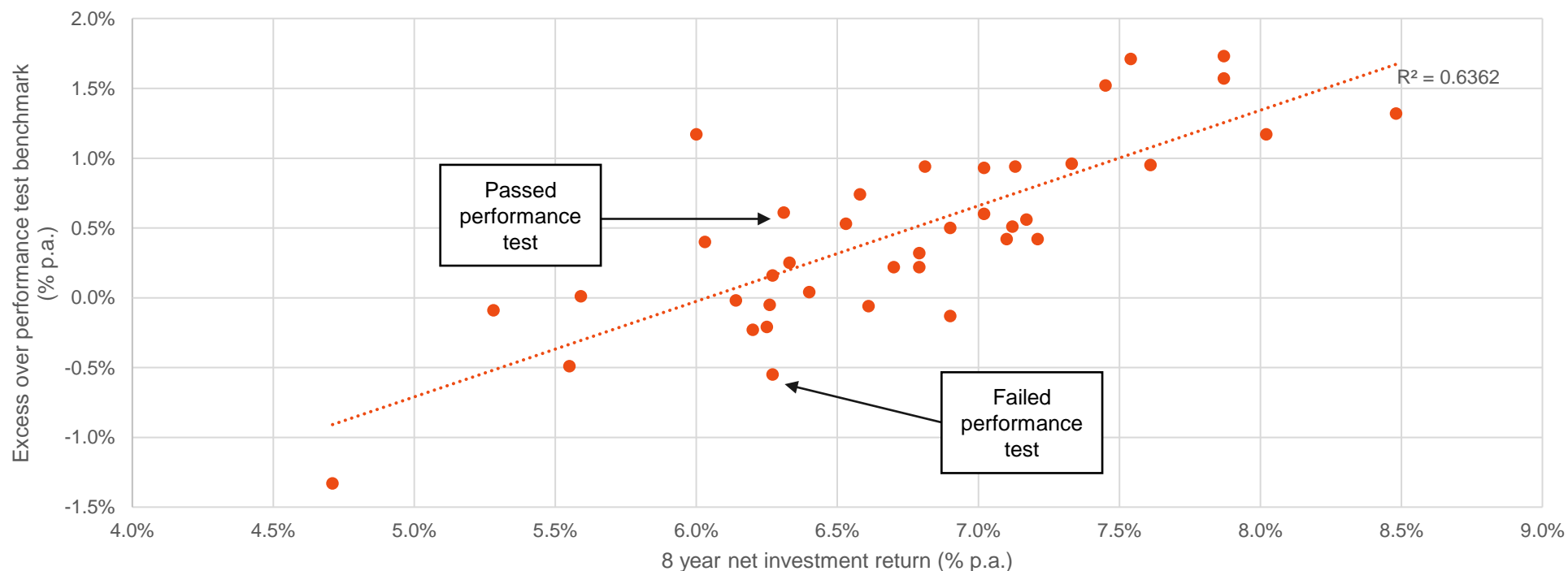
Source: SuperRatings

Longer-term performance versus YFYS outcome

Performance in different markets

Chart 4 shows the actual performance of each MySuper option compared to its YFYS performance test outcome. As expected, funds which have better long-term performance typically had a higher performance test result. However, this relationship does not completely explain the outcomes – a number of funds had anomalous outcomes. In the chart we have highlighted two funds which both returned 6.3% p.a. over the eight years – however, one fund outperformed their test by 0.6% while the other fund underperformed by 0.6% (and failed the test). Warren Buffett, despite being considered one of the world’s most successful investors, would likely fail the APRA test due to underperformance compared to the S&P 500 Index. Although this is against one asset class and is a hypothetical, this questions the value of a test that would declare such a successful investor a failure.

Chart 4: Returns to June 2022



Source: Frontier Advisors, APRA. Single strategy fund only (excluding lifecycle options)

Conclusion

Superannuation is a long-term investment and it is long-term returns which impact member outcomes. Analysing short-term performance can be helpful, especially in understanding how performance was achieved and whether there are any trends. Waiting ten years to determine a fund is persistently underperforming will negatively affect a members' final benefits.

However, basing an assessment of a fund on one year of good performance has limitations. As we have highlighted in this report, the level of risk and the underlying asset allocations will affect each funds' ranking in any individual year. Basing an assessment on longer-term performance has more appeal. However, care is needed to differentiate between those funds which have done well in the past and those funds which may do well in the future.

A robust assessment across a wider range of factors is needed to satisfy each fund is of appropriate quality and provides good value for members. A 'bright line' test based on a single metric will misrepresent the complexity of 'past performance being a guide to the future'. Instead, we believe a better outcome comes from analysing:



Investment performance measured across multiple time periods, and consideration of the level and nature of investment risk.



Level of fees and costs, particularly where these are increasing.



Size of assets and cashflow position, especially if the cashflow is negative.



Fund governance, business management and trustee oversight.



Other factors such as member services and other qualitative factors.



The focus should be on improved outcomes for members over the long-term.

Enabling superior investment outcomes

Frontier Advisors' Partners Platform

Frontier Advisors is an award winning investment consultancy business, with a leading edge investment technology product and capability.

We see technology as an enabler of superior client outcomes and it has been a key strategic pillar and core part of our business since 2013. Our dedicated and expert technology team is focused on building software applications to assist asset owners make better long-term investment decisions.

The Partners Platform provides a state-of-the-art technology platform to allow institutional investors to build and model their portfolios, observing potential outcomes of asset and fund manager allocation decisions, risks, factors and providing performance attributions.

Our **Peer Comparison module** provides the ability to conduct peer and industry comparison and attribution. Peer Comparison allows users to analyse risk and return metrics, view performance characteristics including Your Super Your Future, attribute performance against asset allocation positioning, regress performance against independent variables to discover key drivers, and research member benefit and balance distributions by age group.

Key features include:



Performance dashboard



APRA key metrics



Asset allocation



Membership profile



Level 17, 130 Lonsdale Street

Melbourne, Victoria 3000

Tel: +61 3 8648 4300

frontieradvisors.com.au

@frontier_adv

Disclaimer:

Frontier Advisors Pty Ltd ABN 21 074 287 406 AFS Licence No. 241266

The information contained in this presentation is current as at the date of preparation, but may be subject to change. The information contained in this presentation is intended as general commentary and should not be regarded as financial, legal or other advice. This presentation has been prepared without taking into account your objectives, financial situation or needs. You should consider this presentation in light of these matters. Should you require specific advice on the topics or areas discussed please contact the presenter directly or an appropriate advisor. This presentation may contain forward-looking statements. These are not facts, rather, these forward-looking statements are based on the current beliefs, assumptions, expectations, estimates, and projections of Frontier Advisors Pty Ltd about the business, the industry and the markets in which we operate. Past performance is not a reliable indicator of future performance. Frontier Advisors Pty Ltd makes no representation or warranty that any of the information contained in this presentation is accurate or complete. To the maximum extent permitted by law, Frontier Advisors Pty Ltd does not accept any liability for loss arising from any reliance placed on the use of this presentation including the information contained within it. The contents of this presentation are confidential and must not be disclosed to any third party without our written consent. This presentation must not be copied, reproduced or distributed without the written consent of Frontier Advisors Pty Ltd. Frontier Advisors Pty Ltd does not provide taxation advice and you should seek your own independent taxation advice from a registered tax agent.