

Where do long-term returns belong in the world of fintech?

Morningstar's [ANTHONY SERHAN](#) analyses the annual long-term investment returns.

With the growing presence of technology and instant information in our industry, it is easy to question the relevance of a set of long-term numbers, closed off several months ago. The reality is that these changes make a long-term perspective even more important than when this annual study of long-term returns was first published in the June 1980 edition of *Superfunds*.

For those not familiar with the study, it is important point to note at the outset is the shift to using the median return of MySuper options instead of the average of options with 60 per cent to 80 per cent in growth assets. There is some overlap between these two groupings but MySuper has been chosen to reflect both the large level of assets invested in these options and the even larger number of Australians tied to their returns.

This study has always been about

trying to reflect the experience of a typical superannuation fund member and should be viewed in the context of the long-term trends and not as a performance benchmark.

The median superannuation fund produced a return, after tax and investment fees, of 3.1 per cent for the year ending 30 June 2016. The hero of the 2016 results was the story of diversification. Australian and international equities scraped into positive territory, but only just, leaving the other asset classes to push returns above cash. High single digit returns from bonds coupled with strong double digit returns from listed property provided a real boost. Unlisted property and infrastructure assets with stable valuations and attractive relative yields also proved valuable versus equities in 2016. This was also a year where active management of equities had the ability

to generate meaningful excess returns, with the median Australian equity strategy outperforming the index.

After three years of strong returns, it was perhaps time for a breather and this number did keep some of the medium-term results in check, but the longer-term figures continue to show healthy levels. Over the 54 years of this study, superannuation funds have returned 10 per cent per annum, exceeding wage (AWE/AWOTE) and price (CPI) inflation by 3 per cent per annum and 4.8 per cent per annum respectively.

Table 1 depicts returns over multiple time periods to 30 June 2016. Most periods show healthy returns over wage and price inflation. The 10-year number is lower than last year as the 15 per cent of 2006 was replaced with the current 3.1 per cent; the 10-year figure is likely to drop again next year with the last of the pre-GFC boom years dropping out.



Returns to 30 June 2016 (Table 1)

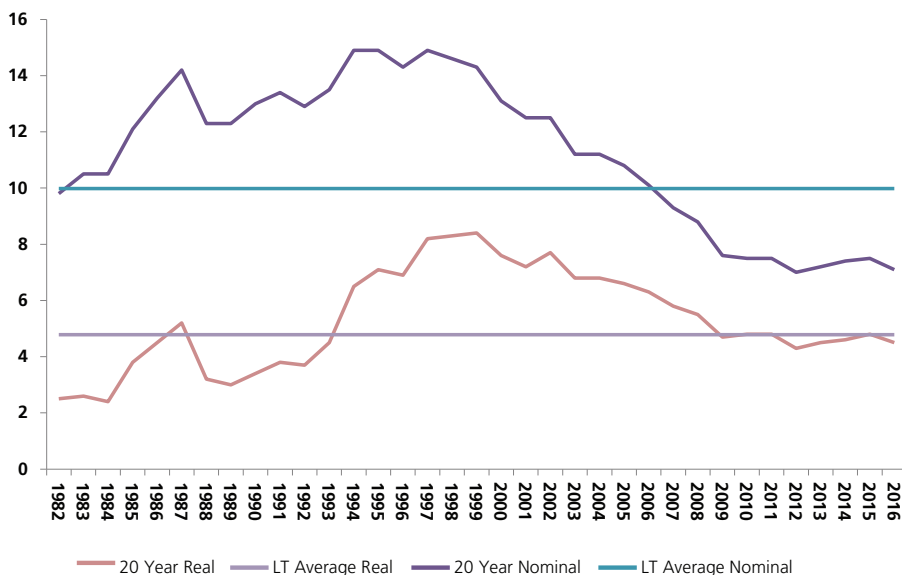
2016	Average fund returns	AWE	CPI	Real returns	
				vs AWOTE	vs CPI
1 Year	3.1	1.6	1.0	1.5	2.1
5 Years	8.4	2.9	1.8	5.3	6.5
10 Years	5.2	3.9	2.4	1.3	2.7
15 Years	6.0	4.1	2.5	1.8	3.4
20 Years	7.1	4.1	2.5	2.9	4.5
25 Years	7.7	4.0	2.5	3.6	5.1
30 Years	8.4	4.5	3.2	3.7	5.0
35 Years	9.7	5.1	3.9	4.4	5.6
40 Years	10.7	5.8	4.6	4.6	5.8
45 Years	10.2	6.8	5.4	3.2	4.6
50 Years	10.3	6.9	5.2	3.2	4.8
54 Years	10.0	6.8	5.0	3.0	4.8

Another interesting point from Table 1 is the lower nominal returns in recent years, with nothing under 40 years matching the long-term number of 10 per cent per annum. One of the main drivers behind this has been the drop in inflation which is why the real returns in the table appear more stable. This point is better illustrated in Figure 2 which shows the rolling 20-year nominal and real returns against the 54-year average.

The closing gap between the two lines represents the drop in inflation levels that started in the 1990s. Both real and nominal returns have been dropping since 2000, and the fact that nominal returns sit so far below the long-term average reflects the impact of the high inflation from the 70s and 80s.

Twenty year real returns on the other hand are now sitting back at the long-term average and at a level that has well and truly grown superannuation savings. The longer the return period the more important it is to focus on the real return.

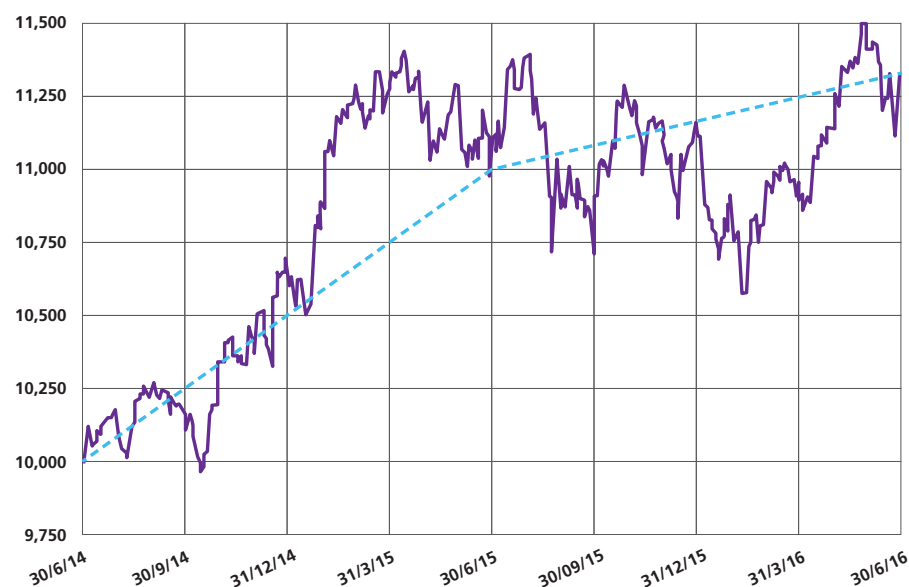
Nominal and Real Returns over CPI (Figure 1)



As noted last year, these long-term returns are quite relaxing compared to the market volatility we have become accustomed to. Figure 2 illustrates the difference between the annual view, representing the person opening their statement at the end of the year and seeing a return of 3.1 per cent for 2016 – not exciting but still better than cash and inflation. In Figure 2, the annual growth rate has been smoothed to an equal daily return for the years ending 30 June 2015 (9.9 per cent) and 2016 respectively.

On the other hand, the daily view has the index reflecting movements of the underlying markets on a daily basis. Now imagine the member who can track their super balance daily from an app on their phone. During the last 12-month period they would see an account balance lower than the starting point one in every three days. What will be the reaction of somebody to a negative return? There is no one answer to this, as everybody is different and has varying degrees of engagement with their superannuation. We do know that investors tend to chase returns and this does not enhance their returns or overall experience – buy high, sell low.

Return perspective – once a year versus daily (Figure 2)



Source: Industry view based on Morningstar Australia Multisector Growth index adjusted for fees and taxes to approximate the full year results from the study.

Greater access to information through ever improving technology platforms is a given for investors and this industry. The way we educate members about market movements and returns becomes even more important in this environment. Decisions based on one bad day could change 30 years of retirement. It is with that sobering thought that we need to continue to immerse ourselves in thinking long term and making sure our investors do the same. **SF**

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About the study

The objective of this long term return study is to capture the investment experience of the typical superannuation fund member. These returns have largely been derived from the average rates of return of funds participating in various surveys with returns prior to 1 July 1970 based on representative asset allocations and sector fund returns from that period.

While members have a wide choice of investment options today, this study can only have one number. Historically, the study has used the average return of funds with growth assets between 60 and 80 per cent of assets as the representative fund. From 1 July 2015, the median return of MySuper options has been used.

Figures portrayed are after tax and investment fees and should be viewed in the context of the long-term trends and not as performance benchmarks. The annual returns over the past 11 years have been sourced from the Morningstar Superannuation Survey – Growth category to 30 June 2015 and MySuper category thereafter. CPI is the consumer price index, for all groups, as published by the Australian Bureau of Statistics. The real rate of return has been calculated as the ratio of the typical fund return to the rate of increase in AWE or CPI. Wage increases are those as published by the Australian Bureau of Statistics for full-time adults' average weekly ordinary time earnings (AWOTE) from 1 July 1982 and for males average weekly total earnings prior to this. The AWE survey is conducted on a biannual basis. Prior to 2012, AWOTE was produced quarterly. AWOTE for 2016 was based on reference period November 2014 to November 2015.

1 year period					5 year period				10 year period					
Year ending 30 June	Average fund returns	AWE/OTE increase	CPI increase	Index of cumulative returns	Year ending 30 June	Average fund returns	Real returns		Year ending 30 June	Average fund returns	AWE	CPI	Real returns	
							vs AWE	vs CPI					vs AWE	vs CPI
1962				1000										
1963	11.3	2.6	0.0	1113										
1964	13.6	5.4	0.7	1257										
1965	-8.7	7.3	4.2	1094										
1966	8.4	4.8	3.4	1149										
1967	12.0	6.9	2.6	1257	1967	7.0	1.5	4.7						
1968	41.4	5.8	3.8	1730	1968	12.2	5.8	9.0						
1969	8.3	7.5	2.5	1830	1969	11.2	4.4	7.6						
1970	-1.5	8.4	3.0	1748	1970	12.9	5.8	9.5						
1971	2.4	11.2	5.2	1699	1971	11.6	3.4	7.9						
1972	20.6	10.2	6.9	1932	1972	13.2	4.2	8.6	1972	10.1	7.0	3.2	2.9	6.7
1973	0.1	9.0	8.3	1773	1973	5.7	-3.2	0.6	1973	8.9	7.6	4.0	1.2	4.7
1974	-14.5	16.2	14.4	1261	1974	0.8	-9.1	-6.1	1974	5.9	8.7	5.3	-2.6	0.6
1975	8.7	25.4	17.0	1156	1975	2.8	-10.0	-6.7	1975	7.7	10.4	6.6	-2.4	1.0
1976	21.3	14.3	12.0	1264	1976	6.4	-7.4	-4.7	1976	8.9	11.3	7.5	-2.2	1.3
1977	7.3	12.5	13.6	1184	1977	3.9	-9.9	-8.1	1977	8.5	11.9	8.6	-3.0	-0.1
1978	15.5	9.9	8.0	1273	1978	6.9	-7.4	-5.5	1978	6.3	12.3	9.0	-5.3	-2.5
1979	13.9	7.7	8.8	1338	1979	13.2	-0.5	1.2	1979	6.8	12.4	9.7	-5.0	-2.6
1980	37.5	9.5	11.0	1692	1980	18.7	7.2	7.2	1980	10.5	12.5	10.5	-1.8	0.0
1981	17.1	13.9	8.4	1840	1981	17.8	6.4	7.1	1981	12.0	12.7	10.8	-0.6	1.1
1982	-2.8	14.6	10.9	1588	1982	15.5	4.0	5.6	1982	9.6	13.2	11.2	-3.2	-1.4
1983	26.4	10.3	11.1	1830	1983	17.6	5.8	6.9	1983	12.2	13.3	11.5	-1.0	0.6
1984	14.2	10.2	4.0	2017	1984	17.7	5.4	8.0	1984	15.4	12.7	10.5	2.4	4.4
1985	21.5	4.8	6.6	2318	1985	14.8	3.7	6.1	1985	16.7	10.7	9.4	5.4	6.7
1986	32.0	6.9	8.5	2862	1986	17.6	7.6	8.7	1986	17.7	10.0	9.1	7.0	7.9
1987	31.5	6.6	9.3	3498	1987	24.9	16.0	15.8	1987	20.1	9.4	8.7	9.8	10.5
1988	1.0	6.6	7.2	3281	1988	19.5	11.7	11.6	1988	18.5	9.1	8.6	8.6	9.1
1989	10.0	7.8	7.5	3363	1989	18.6	11.4	10.0	1989	18.1	9.1	8.4	8.2	8.9
1990	11.2	6.6	7.7	3481	1990	16.5	9.0	7.8	1990	15.7	8.8	8.1	6.3	7.0
1991	9.4	5.0	3.3	3693	1991	12.2	5.4	4.9	1991	14.9	7.9	7.6	6.5	6.8
1992	10.6	4.7	1.2	4040	1992	8.4	2.2	2.8	1992	16.4	6.9	6.6	8.9	9.2
1993	11.5	1.8	1.8	4432	1993	10.5	5.0	5.9	1993	14.9	6.1	5.7	8.3	8.7
1994	8.8	3.3	1.8	4742	1994	10.3	5.8	7.0	1994	14.4	5.4	5.5	8.5	8.4
1995	7.9	5.1	4.5	4904	1995	9.6	5.4	6.9	1995	13.0	5.4	5.3	7.2	7.3
1996	10.5	4.0	3.1	5266	1996	9.9	5.9	7.2	1996	11.0	5.1	4.7	5.6	6.0
1997	18.9	3.4	0.3	6246	1997	11.5	7.7	9.0	1997	9.9	4.8	3.8	4.9	5.9
1998	8.7	4.3	0.7	6746	1998	10.9	6.6	8.6	1998	10.7	4.6	3.2	5.8	7.3
1999	8.4	3.2	1.0	7245	1999	10.8	6.5	8.7	1999	10.6	4.1	2.5	6.2	7.9
2000	12.2	4.1	3.1	7904	2000	11.7	7.6	9.9	2000	10.6	3.9	2.1	6.4	8.3
2001	5.6	5.1	6.1	7865	2001	10.7	6.4	8.3	2001	10.3	3.9	2.4	6.2	7.7
2002	-3.5	5.0	2.8	7369	2002	6.1	1.7	3.3	2002	8.8	3.9	2.5	4.7	6.1
2003	0.1	6.1	2.6	7185	2003	4.4	-0.3	1.3	2003	7.6	4.4	2.6	3.1	4.9
2004	14.3	2.9	2.5	8033	2004	5.5	0.9	2.0	2004	8.1	4.3	2.7	3.6	5.3
2005	13.3	5.9	2.5	8900	2005	5.7	0.7	2.3	2005	8.7	4.4	2.5	4.1	6.0
2006	15.0	3.2	4.0	9879	2006	7.5	2.8	4.5	2006	9.1	4.3	2.5	4.6	6.4
2007	15.3	5.0	2.1	11183	2007	11.4	6.5	8.5	2007	8.8	4.5	2.7	4.1	5.9
2008	-8.0	4.0	4.4	9797	2008	9.6	5.2	6.3	2008	7.0	4.4	3.1	2.5	3.8
2009	-12.9	6.1	1.4	8396	2009	3.8	-1.0	0.9	2009	4.6	4.7	3.1	-0.1	1.5
2010	10.5	5.1	3.1	9014	2010	3.3	-1.3	0.3	2010	4.5	4.8	3.1	-0.3	1.4
2011	8.7	4.4	3.5	9479	2011	2.1	-2.7	-0.8	2011	4.8	4.8	2.9	0.0	1.8
2012	0.3	3.4	1.2	9396	2012	-0.7	-5.1	-3.3	2012	5.2	4.6	2.7	0.6	2.4
2013	16.7	5.3	2.4	10740	2013	4.1	-0.8	1.8	2013	6.8	4.5	2.7	2.2	4.0
2014	12.8	2.3	3.0	11796	2014	9.7	5.4	6.9	2014	6.7	4.5	2.8	2.1	3.8
2015	9.9	2.0	1.5	12789	2015	9.5	5.8	7.0	2015	6.4	4.1	2.7	2.2	3.6
2016	3.1	1.6	1.0	13057	2016	8.4	5.3	6.5	2016	5.2	3.9	2.4	1.3	2.7

