

# Investment strategy and outlook

31 March 2023

## Performance update

AustralianSuper's Balanced option returned 3.50% for the quarter and 6.39% for the financial year-to-date to 31 March 2023. Each of the PreMixed options delivered positive returns for the quarter boosted by a broad uplift to performance across asset classes, including Australian shares, international shares and fixed interest assets.

The Balanced option has provided strong returns and outperformed its investment objective to beat the median

manager<sup>1</sup> over the long term. The returns of the Balanced option over the last 12 months to 31 March 2023 reflect the defensive positioning of the portfolio. This defensive positioning was adopted over the past year due to the lower economic growth expected in 2023. Listed share markets have continued to rally over the past six months which has challenged the Balanced option's performance relative to peers.

### Super and TTR Income investment option performance as at 31 March 2023

Investment option	3 months (%)	FYTD (%)	1 year (%)	3 years pa (%)	5 years pa (%)	10 years pa (%)	15 years pa (%)	20 years pa (%)
<b>PreMixed Options</b>								
High Growth	4.10	7.87	0.86	12.18	8.13	9.67	7.21	8.69
Balanced	3.50	6.39	0.71	10.23	7.23	8.71	6.94	8.28
Socially Aware	3.56	5.68	0.03	9.72	5.96	7.93	6.87	7.35
Indexed Diversified	4.89	9.18	1.40	9.42	6.78	7.07	-	-
Conservative Balanced	3.06	4.67	0.25	6.92	5.43	6.87	6.02	-
Stable	2.38	3.24	0.31	4.09	3.85	5.25	5.34	5.95
<b>DIY Mix Options</b>								
Australian Shares	3.91	12.88	2.67	17.99	10.13	9.37	7.66	9.96
International Shares	7.27	11.07	1.88	10.61	9.74	12.35	8.03	8.31
Diversified Fixed Interest	1.44	0.46	-1.26	-0.23	0.81	2.71	4.50	4.61
Cash	0.73	1.77	1.88	0.76	1.14	1.70	2.67	3.19

AustralianSuper investment returns are based on crediting rates, which are returns less investment fees and costs, transaction costs, the percentage-based administration fee deducted from returns from 1 April 2020 to 2 September 2022 and taxes. Investment returns aren't guaranteed. Past performance isn't a reliable indicator of future returns. Returns from equivalent options of the ARF and STA super funds are used in calculating return for periods that begin before 1 July 2006.

For TTR Income accounts, the investment return is based on the crediting rate for super (accumulation) options. From 1 April 2020 to 2 September 2022 the crediting rate includes an administration fee that is deducted from investment returns for super (accumulation) accounts. TTR Income accounts will be adjusted to refund the administration fee deducted from investment returns. All TTR Income administration fees are deducted from account balances.

<sup>1</sup> SuperRatings Fund Crediting Rate Survey – SR50 Balanced (60-76) to 28 February 2023.

## Choice Income investment option performance

as at 31 March 2023

Investment option	3 months (%)	FYTD (%)	1 year (%)	3 years (%)	5 years pa (%)	10 years pa (%)	15 years pa (%)
<b>PreMixed Options</b>							
<b>High Growth</b>	4.59	8.77	1.16	13.51	8.93	10.67	8.15
<b>Balanced</b>	3.93	6.99	0.84	11.19	7.83	9.56	7.82
<b>Socially Aware</b>	3.95	6.23	-0.12	10.77	6.55	8.81	7.41
<b>Indexed Diversified</b>	5.92	10.46	1.56	10.57	7.60	8.14	-
<b>Conservative Balanced</b>	3.45	5.24	0.29	7.76	6.04	7.73	7.01
<b>Stable</b>	2.70	3.64	0.33	4.57	4.28	5.89	6.03
<b>DIY Mix Options</b>							
<b>Australian Shares</b>	4.48	14.20	3.36	20.15	11.48	10.58	8.97
<b>International Shares</b>	7.95	12.02	2.03	11.41	10.44	13.60	8.81
<b>Diversified Fixed Interest</b>	1.63	0.49	-1.60	-0.31	0.95	3.10	5.15
<b>Cash</b>	0.87	2.07	2.20	0.89	1.34	1.99	3.00

Choice Income investment returns are based on crediting rates, which are returns less investment fees and costs and transaction costs. Investment returns aren't guaranteed. Past performance isn't a reliable indicator of future returns.

## Economic perspectives

The financial system and economic environment are showing the impacts of the tighter monetary policy, especially the significantly higher interest rates. The recent banking failures in the US are a result of a number of mid-size banks being caught out by a shift from very easy to tight monetary conditions. The central banks have the challenge of providing financial stability while seeking to restrain inflation.

While inflation is showing some signs of easing in global economies, it is still above historical averages. With central bank inflation targets of about 2–3%, it is likely for interest rates to remain elevated in 2023 with the goal of reducing inflation. This does mean that households will face pressure from rising mortgage rates, which leaves less income to spend on other goods and services.

The potential for a slowdown or a recession in key global markets, especially in the US, the UK and Europe, is heightened due to the lagged impact of interest rate increases on the economy. In Australia, the risk of an economic slowdown is modest compared to other developed markets. The strength of Australian resource exports, a recovery in services exports and China's border reopening may assist in supporting Australia's economy.

## AustralianSuper's outlook and investment strategy

Our asset allocation positioning reflects the headwinds that are expected in the broader economy. The portfolio currently has a defensive stance and a reduced level of risk, implemented by lowering the weight towards Australian and international shares and by having higher weights to fixed interest assets. While the valuations across assets such as listed shares remain above historic averages make them a less favourable investment, the higher yields in fixed interest markets make them a more compelling investment. For the Balanced option, this means that about 65% of the portfolio is weighted towards growth assets and 35% is weighted towards defensive assets<sup>1</sup>.

Over the medium term we would expect to increase risk in the portfolio by adding to the allocations of growth assets in the portfolio. As part of our analysis, we consider the valuations of listed shares, level of earnings in assets and the economic outlook. As these factors shift, the investment team will adjust the portfolio to manage risk and take advantage of long-term investment opportunities.

<sup>1</sup> Additional details at [australiansuper.com/-/media/australian-super/files/pdfs/pre-mixed-asset-allocation-fs.pdf](https://australiansuper.com/-/media/australian-super/files/pdfs/pre-mixed-asset-allocation-fs.pdf)

## Asset class highlights:

- Listed shares returns, while varying month to month, have edged higher during the quarter. The moderation of inflation fears and steady corporate earnings have supported Australian and international shares returns. International shares returns were resilient following the US banking failures as government authorities established emergency lending arrangements to provide liquidity in the financial sector. The listed shares portfolio is positioned defensively with reduced exposure to cyclical securities based on the potential for the economy to slow over the coming year.
- Private equity returns reflect updated valuations on the back of the high inflation and interest rate environment, with some negative performance following the decline in listed markets in 2022. The conservative positioning of the portfolio continues to focus on investments with strong potential for long-term profitability.
- Unlisted asset valuations have been updated based on current market and economic conditions, in line with our Valuation Standard. Unlisted infrastructure and credit assets delivered positive returns for the financial year-to-date, contributing to member returns.
- Fixed interest returns trended lower during January and February, with a turning point in March, as the US banking failures led to lower yields boosting returns for the quarter. The fixed interest portfolio is currently positioned broadly neutral in duration.
- Cash returns continue to outperform its benchmark, the Bloomberg AusBond Composite Index, while continuing to invest in higher yielding securities as assets mature in the portfolio.

## Contact us

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