

# Super Update

setting up for your future

Welcome to *Super Update*, the newsletter for the Heidelberg Australia Superannuation Fund that keeps you up to date with what's happening with your super. If you have any suggestions for articles in future issues of *Super Update*, please pass them on to the Fund's Policy Committee.

## Investment update

Despite a strong finish in late 2019, share markets around the world have seen sharp falls since mid-February 2020 due to uncertainties around the Coronavirus outbreak. In the last week of February alone, international shares dropped 8.4% (MSCI World ex Australia Index, hedged).

Australian shares fell by 7.8% over February (S&P/ASX 300 Accumulation Index) as investors anticipated the Coronavirus impact on Australia's economy, given China is Australia's largest trading partner. All sectors lost ground over the month, with the healthcare and utilities sectors being the least impacted.

Central banks cut interest rates to keep financial markets stable and borrowing costs low. The US Federal Reserve dropped its benchmark interest rate in early March, then again in mid-March to a rate of zero. The Reserve Bank of Australia also lowered interest rates twice in March, most recently to 0.25%. This was aimed at helping the economy deal with the impact of the Coronavirus and bushfires.

The increased uncertainty has seen investors seek the safety of bonds. This has had the effect of producing positive returns for Australian and international fixed interest investments.

The Australian dollar depreciated 2.5% against the US dollar during February, finishing at 65.3 US cents, down from 66.9 US cents, providing some protection for Australian investors with unhedged investments. Since the start of March, the Australian dollar has continued to weaken.

Returns for the Fund's options more heavily invested in shares (like Diversified Shares, Growth and Balanced) are most affected by the movements in the share markets. Returns for the eight months to 29 February 2020 are shown in the table below.

Investment option	Year to date 1 July 2019 to 29 February 2020
Diversified Shares	1.8%
Growth	2.9%
Balanced	2.6%
Capital Stable	2.0%
Cash	0.7%

Note: Returns shown in the above table are net of tax and investment fees. Please remember that past performance is not necessarily a reliable indicator of future performance.

At the time of going to print, share markets have fallen further and more dramatically, with large negative returns anticipated for the month of March.

## Market volatility and your super

At times of high volatility and negative returns, it's important to keep in mind that for most members, superannuation is a long-term investment. Even if you are close to retirement, you will still need to keep investing your money to provide for your retirement.

The Trustee has strategies in place to achieve specific performance goals for each of the Fund's investment options over the long term. In addition, some of the recent investment changes were designed to help cushion the impact of falling international share prices – see page 2.

Most of the Fund's investment options are diversified, investing in a range of different asset types – see pages 3 and 4 for details.

The Trustee continues to monitor the situation closely.



## Investment changes

The Trustee works with its investment adviser to regularly review the Fund's portfolio. Following a review completed at the end of 2019, the Trustee has made some changes to the Fund's share investments. These changes affect all investment options except Cash.

### What has changed?

#### Greater proportion in international shares

The Fund will now invest more of its share investments internationally (70%), with the remainder in Australian shares (30%). Previously, the split was 50/50. The aim of this change is to increase diversification, as the Australian share market only makes up around 2% of world markets and the available stocks can be quite limited compared with stocks available internationally. The fortune of Australian shares also relies heavily on the local economy and that of its key trading partners.

The details of each investment option, including new benchmark and long-term asset allocation ranges, are shown on pages 3 and 4.

#### More unhedged shares

Of the shares that are invested internationally, 60% will be exposed to movements in foreign currency (unhedged) and 40% will be subject to a strategy which protects them from foreign currency fluctuations (hedged). Previously, the split was 50/50.

Increasing the Fund's exposure to foreign currency is seen as a tool to manage downside risks. For example, when international markets fall, typically we see a weakening in the Australian dollar (AUD). The impact of the loss from international markets is cushioned when there is a simultaneous weakening in the AUD. This situation is being seen with recent market falls. For example, in February 2020 the US market fell around 7% and the AUD fell around 2.5%, in effect limiting the loss (in AUD) to around 5%.

### New investment manager

The Trustee has appointed BlackRock Investment Management (Australia) Limited to manage a portion of the Fund's international shares. The money will be invested in the BlackRock iShares International Equity Index Fund (unhedged).

### What's not changing?

The Fund's overall exposure to shares will not change. There will also be no changes to each investment option's objectives (specific performance goals set by the Trustee), the split between growth (higher risk/higher return) and income (lower risk/lower return) assets, or the overall measures of risk.

## What does this mean for me?



The changes aim to increase the Fund's diversification and improve the portfolio's resilience in times of global financial stress.

You do not need to take any action as a result of these changes.

The Trustee continues to monitor and review the Fund's investments with the aim of ensuring the Fund delivers on its investment objectives and achieves competitive returns for members.

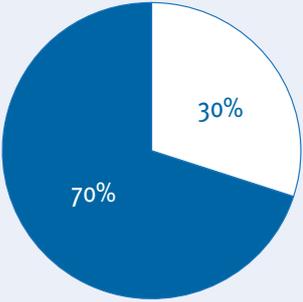
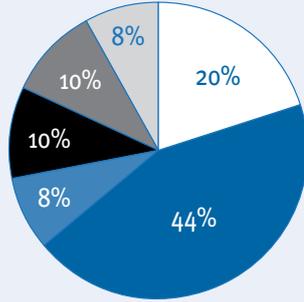
## Contact information



If you have a query about any of the information provided in this newsletter or about your super, please contact Con Xanthos on **(03) 9548 6210** or GK Ng on **(03) 9548 6218**. You can also speak with Con and GK on general information about the Fund's management, features and benefits. However, neither Con nor GK can give you personal advice.

Alternatively, you can contact the Fund Administrator on **1800 127 953** or seek guidance from a licensed financial adviser.

## Investment information – effective 1 March 2020

	Diversified Shares option	Growth option																
Investment objectives	<ul style="list-style-type: none"> <li>» To achieve a return (net of tax and investment fees) that exceeds the increase in inflation (CPI) by at least 4.0% p.a. over moving seven-year periods.</li> <li>» To limit the probability of achieving a negative return over moving one year periods to approximately 1 year in 4.</li> </ul>	<ul style="list-style-type: none"> <li>» To achieve a return (net of tax and investment fees) that exceeds the increase in inflation (CPI) by at least 3.0% p.a. over moving seven-year periods.</li> <li>» To limit the probability of achieving a negative return over moving one year periods to approximately 1 year in 5.</li> </ul>																
Strategy	To invest totally in shares, with 30% in Australian shares and 70% in international shares.	To invest largely in shares and property (about 70%), with the balance (about 30%) in fixed interest and cash investments.																
Benchmark asset allocation and ranges	 <table border="0"> <tr> <td> Australian shares</td> <td>28% – 32%</td> </tr> <tr> <td> International shares</td> <td>68% – 72%</td> </tr> </table>	 Australian shares	28% – 32%	 International shares	68% – 72%	 <table border="0"> <tr> <td> Australian shares</td> <td>18% – 22%</td> </tr> <tr> <td> International shares</td> <td>42% – 46%</td> </tr> <tr> <td> Australian property</td> <td>6% – 10%</td> </tr> <tr> <td> Australian fixed interest</td> <td>8% – 12%</td> </tr> <tr> <td> International fixed interest</td> <td>8% – 12%</td> </tr> <tr> <td> Cash</td> <td>6% – 10%</td> </tr> </table>	 Australian shares	18% – 22%	 International shares	42% – 46%	 Australian property	6% – 10%	 Australian fixed interest	8% – 12%	 International fixed interest	8% – 12%	 Cash	6% – 10%
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 Cash	6% – 10%																	
Minimum suggested investment period	7 years or more.	5 years or more.																
Likelihood of a negative return in any 20 year period*	4 to 6 years out of every 20.	4 to 6 years out of every 20.																
Volatility level*	High 	High 																

Note: The information about the suitability of a particular option is general in nature. It is not intended to be a recommendation or statement of opinion in relation to any particular option. Members are encouraged to seek their own advice if they are uncertain as to which option might be most appropriate for them.

\* The volatility level shown is based on industry guidance to allow members to compare investment options that are expected to deliver a similar number of negative annual returns over any 20 year period. It is based on the Standard Risk Measure developed by the industry and is not a complete assessment of all forms of investment risk, for instance it does not detail what the size of a negative return could be or the potential for a positive return to be less than a member may require to meet their objectives. Further, it does not take into account the impact of administration fees and tax on the likelihood of a negative return. Members should still ensure they are comfortable with the range of risks and potential losses and gains associated with their chosen investment option.

## Investment information – effective 1 March 2020

	Balanced option	Capital Stable option	Cash option																										
<b>Investment objectives</b>	<ul style="list-style-type: none"> <li>» To achieve a return (net of tax and investment fees) that exceeds the increase in inflation (CPI) by at least 2.5% p.a. over moving five-year periods.</li> <li>» To limit the probability of achieving a negative return over moving one year periods to approximately 1 year in 6.</li> </ul>	<ul style="list-style-type: none"> <li>» To achieve a return (net of tax and investment fees) that exceeds the increase in inflation (CPI) by at least 1.5% p.a. over moving three-year periods.</li> <li>» To limit the probability of achieving a negative return over moving one year periods to approximately 1 year in 9.</li> </ul>	<ul style="list-style-type: none"> <li>» To achieve a return (net of tax and investment fees) that matches the Bloomberg AusBond Bank Bill Index (net of tax).</li> <li>» To avoid any negative returns over moving one year periods.<sup>#</sup></li> </ul>																										
<b>Strategy</b>	To invest about 50% in shares and property and 50% in fixed interest investments.	To invest largely in fixed interest investments (about 70%), with the balance (about 30%) in shares and property.	To invest only in secure fixed interest investments, such as bank deposits, bills, mortgages and short-term bonds.																										
<b>Benchmark asset allocation and ranges</b>	<table border="1"> <tr> <td>Australian shares</td> <td>10% – 14%</td> </tr> <tr> <td>International shares</td> <td>27% – 31%</td> </tr> <tr> <td>Australian property</td> <td>8% – 12%</td> </tr> <tr> <td>Australian fixed interest</td> <td>15% – 20%</td> </tr> <tr> <td>International fixed interest</td> <td>15% – 20%</td> </tr> <tr> <td>Cash</td> <td>12% – 16%</td> </tr> </table>	Australian shares	10% – 14%	International shares	27% – 31%	Australian property	8% – 12%	Australian fixed interest	15% – 20%	International fixed interest	15% – 20%	Cash	12% – 16%	<table border="1"> <tr> <td>Australian shares</td> <td>6% – 10%</td> </tr> <tr> <td>International shares</td> <td>14% – 18%</td> </tr> <tr> <td>Australian property</td> <td>4% – 8%</td> </tr> <tr> <td>Australian fixed interest</td> <td>13% – 17%</td> </tr> <tr> <td>International fixed interest</td> <td>13% – 17%</td> </tr> <tr> <td>Cash</td> <td>38% – 42%</td> </tr> </table>	Australian shares	6% – 10%	International shares	14% – 18%	Australian property	4% – 8%	Australian fixed interest	13% – 17%	International fixed interest	13% – 17%	Cash	38% – 42%	<table border="1"> <tr> <td>Cash</td> <td>100%</td> </tr> </table>	Cash	100%
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<b>Minimum suggested investment period</b>	5 years or more.	3 years or more.	Nil.																										
<b>Likelihood of a negative return in any 20 year period*</b>	3 or 4 years out of every 20.	2 or 3 years out of every 20.	Nil. <sup>#</sup>																										
<b>Volatility level*</b>	Medium to High 	Medium 	Very low 																										

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# Note that return of capital is not guaranteed.

The information in this publication is general information only and does not take into account your particular objectives, financial circumstances or needs. It is not personal or tax advice. Any examples included are for illustration only and are not intended to be recommendations or preferred courses of action. You should consider obtaining professional advice about your personal circumstances before making any financial or investment decision based on the information contained in this document. Please note that past investment performance is not necessarily an indication of future performance.

Issued by Towers Watson Superannuation Pty Ltd (ABN 56 098 527 256, AFSL 236049), as Trustee of the Heidelberg Australia Superannuation Fund (ABN 75 071 229 817). April 2020.