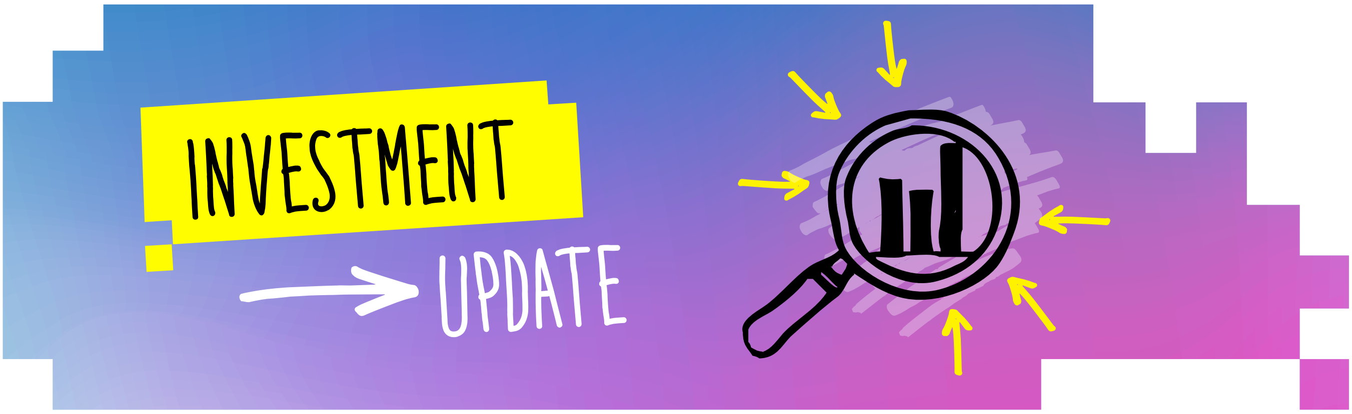
ANZ Staff Super

November 2022



What's driving the negative returns super funds are experiencing in 2022?

Essentially, it's rising inflation and rising interest rates.

A major driver of inflation is when demand for goods and services outstrips supply, causing costs to jump. Central banks set interest rates historically low during the Covid years to stimulate growth. Low interest rates mean more disposable income, and that drives increased demand for goods.

On the other side, the lingering impacts of Covid on supply chains and immigration, as well as the impact of Russia's invasion of Ukraine on energy and food, has meant there have been constraints on supply. Strong demand and weak supply have led to rising inflation. In turn, this has led central banks to move away from record low interest rates. The Reserve Bank here in Australia has already lifted rates from 0.1% to 2.85% as at November 2022.

We feel the impact of rising inflation and interest rates in our daily lives: filling up the car, doing the grocery shopping, paying the mortgage.

The combined impact of rising inflation and rising interest rates has also had a significant impact on investment markets, causing global share markets to fall heavily.

Typically bonds act as a strong diversifier to shares, holding their value when share markets have fallen. In 2022 rising interest rates have been bad for both shares and bonds. So bonds haven't cushioned the blow of share market falls the way they did in previous crises.

While bonds are an asset class that can help protect capital, we know that this doesn't work in all market conditions and further diversification is important for any super fund.

What is ANZ Staff Super doing to protect my money from market volatility?

Here at ANZ Staff Super, we focus on building diverse portfolios.

These portfolios are built to be robust over a range of market conditions and to deliver strong returns over the long term.

Our three core investment strategies are:

1. **Diversification**
2. **Leveraging the 'equity risk premium'.**
3. **Investing at a risk level that's appropriate for our members.**

Diversification

Diversification is about spreading investments across different asset classes and across different fund managers. Diversification lowers risk because different asset classes do well at different times. As a result of diversification, while global share markets were down 19.4% for the first six months of the year on a hedged basis, our Balanced Growth option fell by 8.6%.

Our investments in property and infrastructure have continued to deliver income and provide some protection against rising inflation.

Our diversity managers have added value through active management and diversifying positions.

Our credit investments have continued to deliver positive returns. And our exposure to foreign currencies has provided strong downside protection as the Australian dollar has fallen over recent months.

With our Cautious option, we've also been careful to limit the exposure of the portfolio to rising interest rates which has helped reduce the downside of this option so far this year.

Much of our investment focus in 2021, and into 2022, has been on continuing to improve the diversification and resilience of our investment options. This includes several additional investments in unlisted assets which have elements of downside protection and linkage to inflation. We've also increased our allocation to healthcare property while reducing our exposure to office buildings.

This year we've added to our existing infrastructure exposures as well as added a new infrastructure exposure through the Palisade Impact Fund. This fund focuses on investments that intentionally target solutions to environmental and social challenges while driving strong risk adjusted returns, demonstrating that investing for strong returns and investing sustainably are entirely compatible.

At ANZ Staff Super we're committed to achieving **net zero carbon emissions** from our investments by 2050.

Leveraging the equity risk premium

This is the belief that investors will be rewarded over the long term for the risk of investing in shares compared to very low risk investments like cash.

As you can see from the chart below, U.S., Australian and International shares have all outperformed other investment classes like property and cash over the long term, despite market falls along the way.

2022 Schroders Index Chart

Cumulative growth of $100 from 1 October 1992 to 30 September 2022

Source: Schroder, MSCI, ABS, Refinitiv, all the returns are in AUD terms, from 30 Septemeber 1992 to 30 September 2022. The indices are US shares (S&P 500), Australian shares (ASX All Ords), Global shares (unhedged) (MCSI World ex Aus), Global bonds (hedged) Global Agg AUD Hedged, Australian bonds (AusBond Composite), Cash (Cash) and Inflation (Consumer Price Index/CPI). The CPI data is updated to the latest, as at June 2022.

It is extremely difficult to predict exactly when the stock market will go up and down.

That's why staying invested over the long term is widely considered the best approach.

While we view equities as a key contributor to member outcomes over the long term, this does mean that falling stock markets will impact members' balances in the short term.

While the media headlines focus on market falls, ultimately the risk you face is not just short-term volatility, but the long-term risk of not having an income at retirement that meets your needs.

We believe that the best way to balance these short-term and long-term risks is to stay invested in shares but limit the downside risk by diversifying.

Investing at a risk level appropriate for our members

We believe in balancing investing for strong returns with taking an appropriate amount of risk.

The average age of an ANZ Staff Super member in our accumulation sections is 45.

There are large funds out there with younger demographics and members who have smaller account balances. These funds tend to have a larger allocation to growth assets than us, because the investment time horizon of their members is longer. That means they can take a greater level of risk.

We're committed to taking an appropriate amount of risk for our members, which is why our Balanced Growth option is structured the way it is. Typically around 60% of the Balanced Growth option is invested in shares and property and around 20% in alternative assets and around 20% in fixed interest securities and cash. That is our default option and where most members are invested.

It's worth noting that our Aggressive Growth option, that is heavily invested in equities and other growth assets, has achieved a return of 10.12% per annum over the past ten years to August. It has been a top quartile performer over 1, 3, 5 and 10 years.

What steps should I take?

No one can control the markets, but you can shape your own reactions and decide what to do with your money – or, more importantly, what not to do.

One very reasonable response is to take no action at all.

If you are investing for the longer term (5 years or more) then sticking with your current investment option and riding out short-term volatility may be your best course of action.

It is a good idea to review your investment strategy from time to time. If you need help reviewing your investment strategy, we recommend you get in touch with us and get advice from an **ANZ Staff Super financial adviser**[*].

TALK TO US, WE'RE HERE TO HELP

We're here to help you make the most of your super and create the future you want in retirement:

call us on **1800 000 086**

email us on **anzstaffsuper@superfacts.com**

[*] The Trustee of ANZ Staff Super has entered into an agreement with Mercer Financial Advice (Australia) Pty Ltd under which Mercer's financial advisers have been engaged to provide members with general or limited personal financial advice about options available within ANZ Staff Super over the phone for no extra charge.

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