



Portfolio Construction in Volatile Markets

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Before we begin

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Australian Retirement Trust Super Savings accounts have adopted the same products, services and investments as the pre-merger Sunsuper Superannuation Fund from 28 February 2022. The historical investment performance for each Sunsuper option is used to show investment performance for Super Savings investment options.

Agenda



1. *Welcome and introduction*
2. *Financial markets outlook*
3. *Regional economic trends*
4. *Monetary policy and central bank actions*
5. *Market outlook and investment implications*
6. *Overview of private markets and their role in the investment landscape*
7. *Portfolio construction and risk management*
8. *Conclusion & Q&A.*

Learning Outcomes:

- Understand the current state of the global economy, including key indicators such as inflation rates, interest rates and unemployment rates.
- Explore the connections between macroeconomic variables and financial markets, including stock prices, bond yields and commodity prices.
- Discuss the potential risks and uncertainties facing the economy, including geopolitical tensions and their potential impact on growth prospects.
- Gain insights into the fundamentals of private markets including the distinct characteristics relative to other asset classes with practical case studies.

For financial markets, a tough 2022 followed by a great 2023



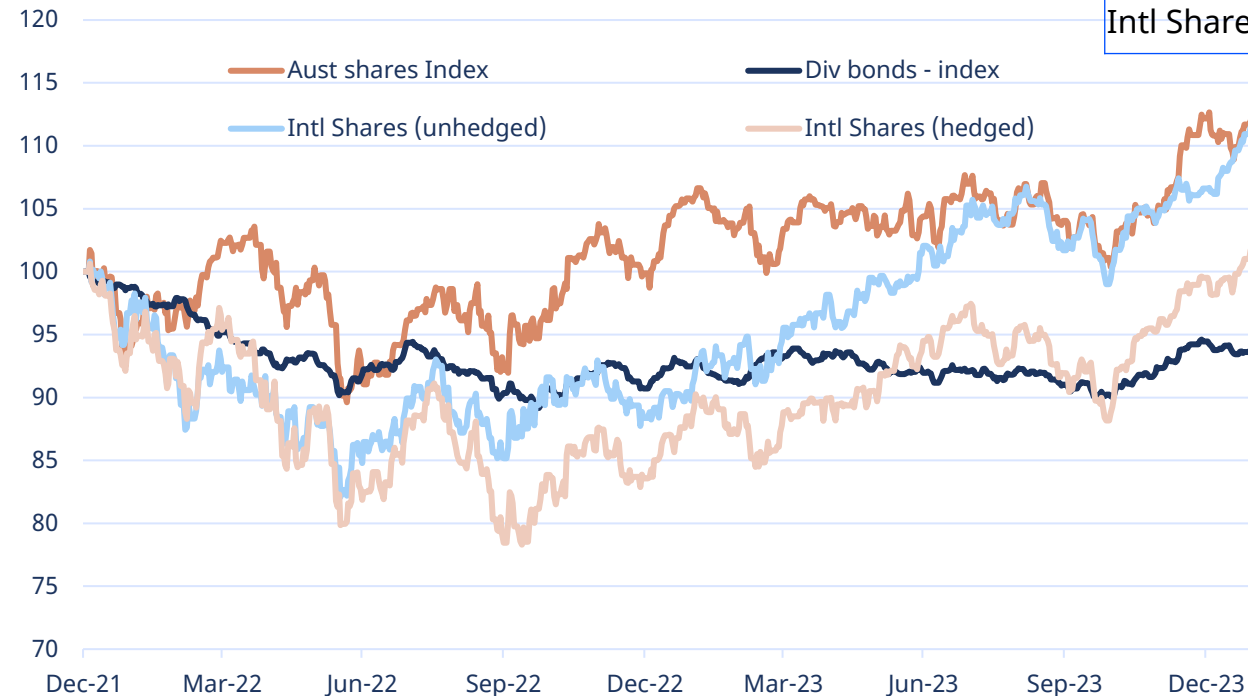
| Returns to end December 2023 (pre-super tax) | 3 months % | 1 year % | 3 year % p.a. | 5 year % p.a. | 10 year % p.a. |
|---|------------|----------|---------------|---------------|----------------|
| Cash (<i>Bloomberg AusBond Bank Bill</i>) | 1.1 | 3.9 | 1.7 | 1.4 | 1.8 |
| Australian Diversified Fixed Interest (<i>Bloomberg AusBond Composite Bond</i>) | 3.8 | 5.1 | -2.7 | 0.6 | 2.6 |
| Global diversified fixed income (<i>Bloomberg Barclays Global-Aggregate hedged to \$A</i>) | 5.4 | 5.3 | -3.1 | 0.5 | 2.6 |
| Australian listed property (<i>S&P/ASX 300 A-REIT Accumulation</i>) | 16.5 | 16.9 | 5.9 | 6.4 | 9.4 |
| Global listed property (<i>FTSE EPRA/NAREIT Developed, hedged to \$A</i>) | 12.7 | 7.9 | 1.7 | 1.9 | 4.5 |
| Australian shares (<i>S&P/ASX 300 Accumulation</i>) | 8.4 | 12.1 | 9.0 | 10.3 | 7.9 |
| Developed market shares, \$A unhedged (<i>MSCI World ex-Australia</i>) | 5.3 | 23.2 | 11.8 | 13.6 | 11.7 |
| Developed market shares, hedged to \$A (<i>MSCI World ex-Australia</i>) | 9.2 | 21.7 | 7.3 | 11.6 | 9.5 |
| Emerging market shares, \$A unhedged (<i>MSCI EM</i>) | 2.0 | 9.2 | -1.1 | 4.3 | 5.5 |



It's been a wild couple of years

- ART's single sector passive options are designed to efficiently capture public market returns
- Poor returns in 2022
- Correlation was high: Equities and Bonds moved together in a similar pattern
- Rising commodity prices insulated Australian shares to some degree in '22
- **BUT**...a major turnaround in 2023!

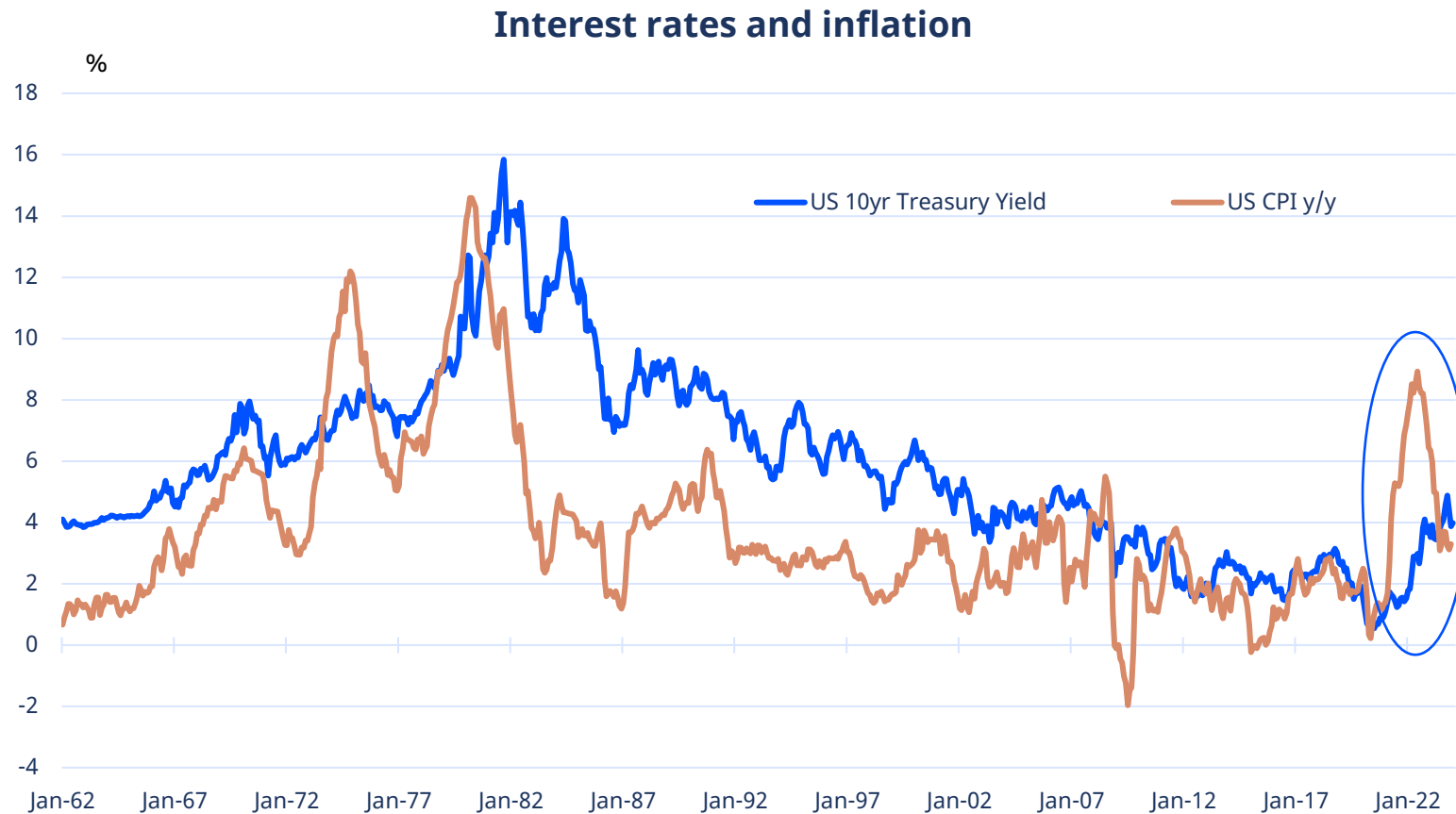
**ART Super Savings single sector passive options.
Value of \$100 invested on 31 December 2021**



| Returns (%) net of investment fees and super tax | 2022 | 2023 |
|--|-------|-------------|
| Aust shares | -0.1 | 12.3 |
| Div bonds | -9.3 | 4.1 |
| Intl Shares (UH | -11.6 | 20.6 |
| Intl Shares (H) | -16.4 | 19.1 |



What happened in 2022 ... interest rates stopped falling, because inflation started rising



- After 40 years of relatively stable inflation and falling interest rates; inflation increased rapidly and interest rates responded
- When interest rates rise all asset prices fall, because ...
- Earnings, rents and fixed payments due in the future are worth less today when interest rates are higher

Source: Refinitiv

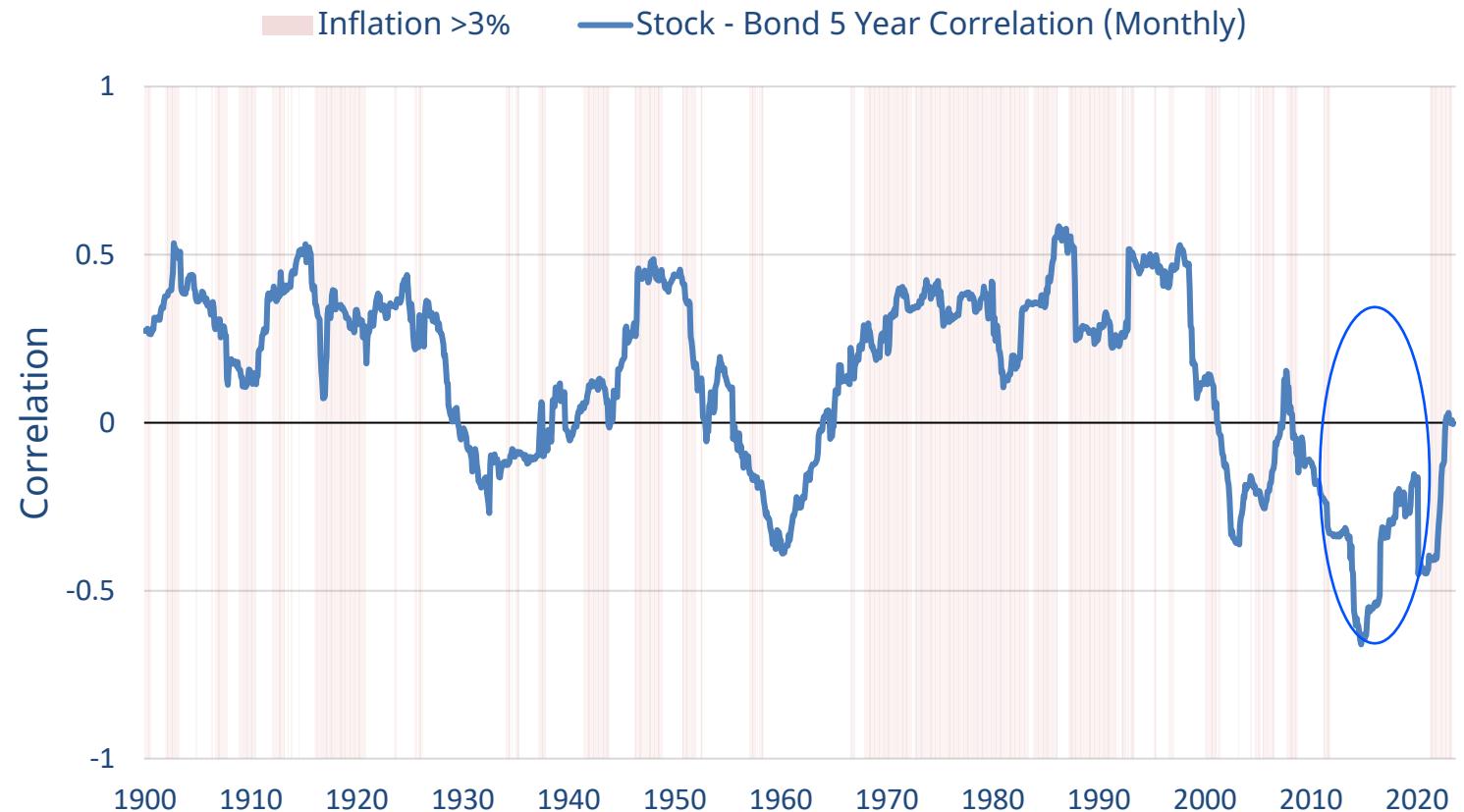


Diversification is hard when inflation is high

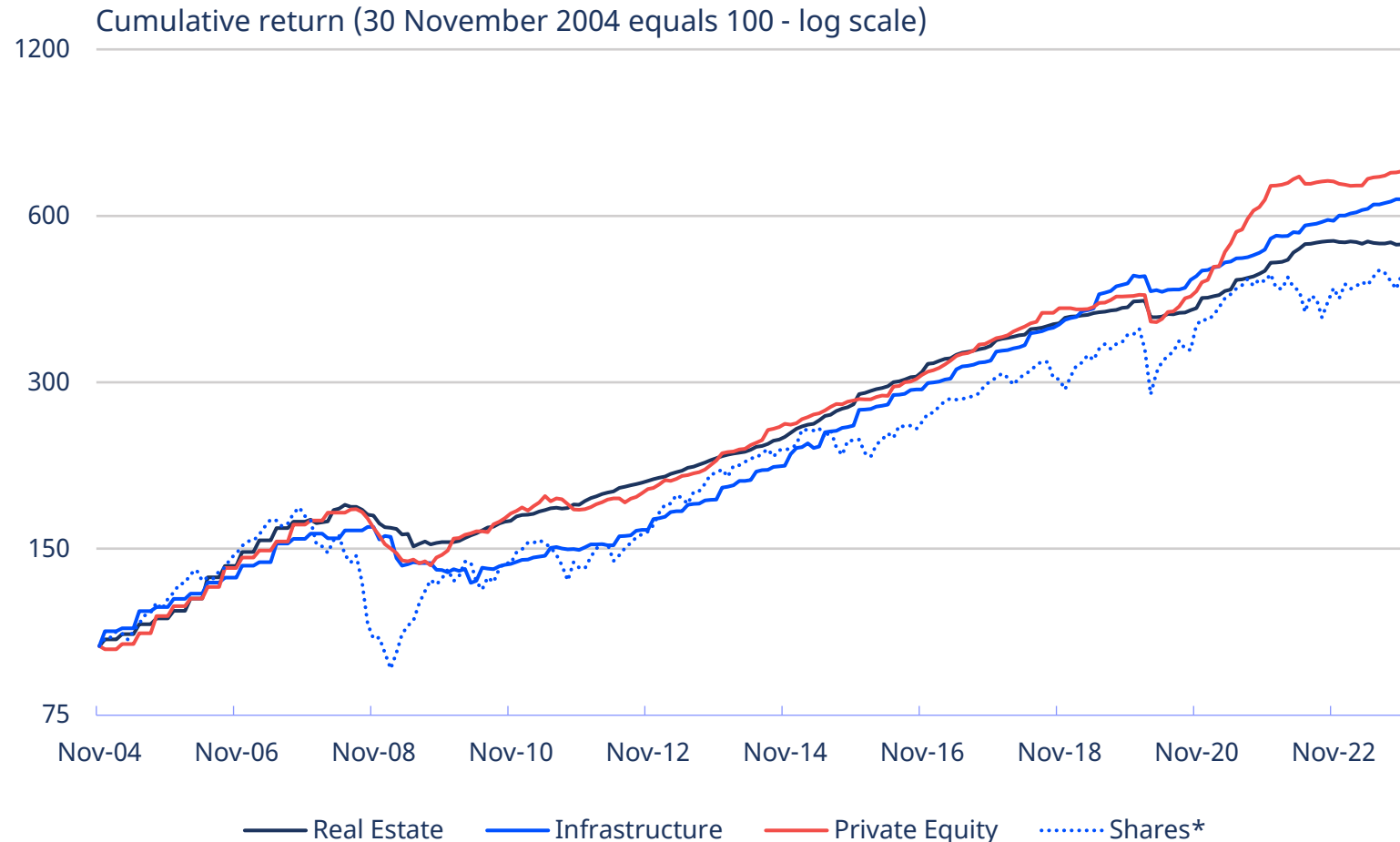
Equities and Bonds are diversifying except when they aren't ...

- When inflation has been low and stable, equity vs bond diversification has been strong
- For much of recorded history, inflation has not been low and stable
- Can you rely on equity vs bond diversification alone to protect your portfolio looking forward?

Stock - Bond Correlation | Inflation Cycle



Why we invest in unlisted assets



Benefits:

- Exceptional value for money
- Provide diversification benefits by capturing the illiquidity premium and reducing the volatility of returns
- There is greater scope for value creation through active management
- Access to opportunities that may not be available in the public markets

Sources: Refinitiv, Australian Retirement Trust. *Total return index comprising 50% MSCI World hedged in A\$ and 50% S&P/ASX300 Accumulation Index. Last observation is **December 2023**.



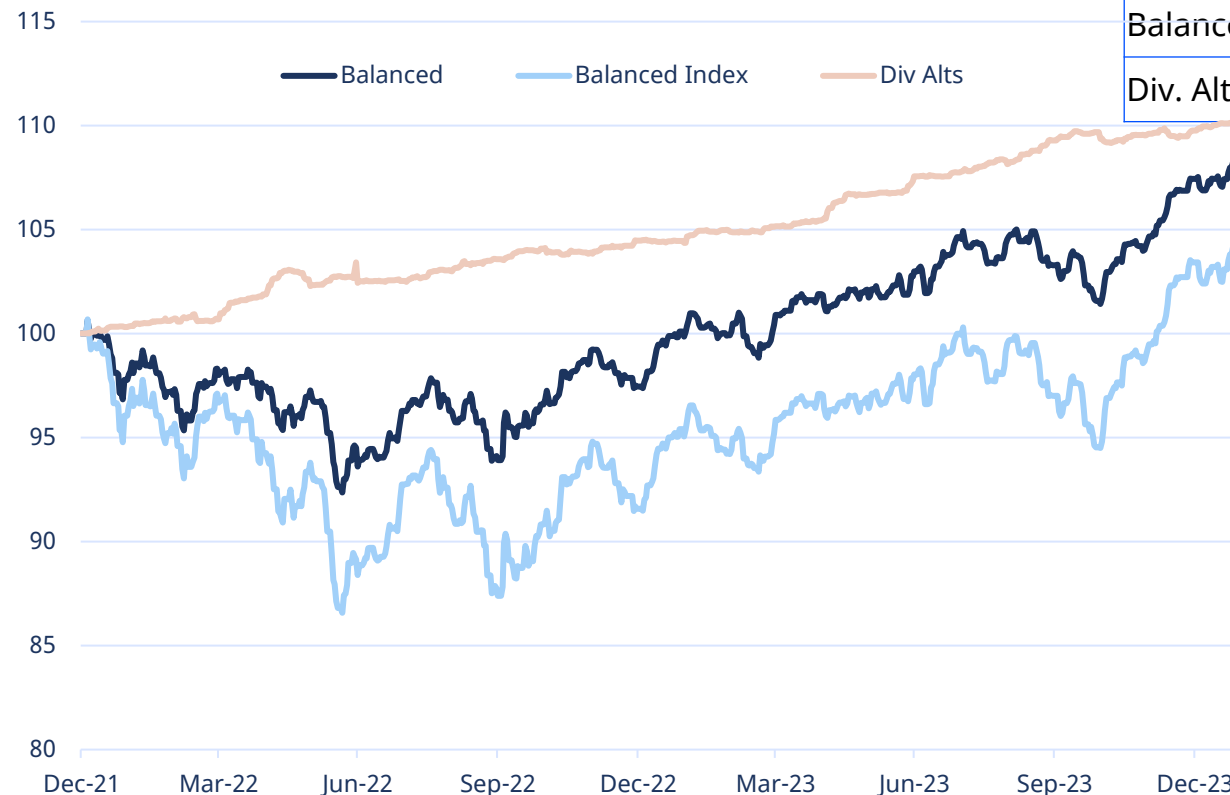
Private markets lagged in 2023 but were strongly diversifying in 2022

There are three features of private markets investments that made them resilient to inflation and very diversifying in 2022:

1. Earnings that are linked to inflation
2. Professional valuations that assume low interest rates won't last forever
3. Idiosyncratic natures of many assets

BUT.. Diversified alts will often lag public markets during recovery e.g. 2023

ART Super Savings selected diversified options:
Value of \$100 invested on 31 December 2021



| Returns (%) net of investment fees and super tax | 2022 | 2023 |
|--|------|------|
| Balanced Index | -8.4 | 12.9 |
| Balanced | -2.6 | 10.2 |
| Div. Alternatives | 4.5 | 5.1 |



Valuation policy: At least 90% of our private assets are revalued in any given quarter

Private debt

- At least quarterly (some monthly)

Private equity

- At least quarterly (some monthly)

Infrastructure

- Mostly Quarterly* (some six monthly)

Property

- Quarterly for larger holdings** (otherwise annually or semi-annually)
- Assets valued progressively through the year

Who values them?

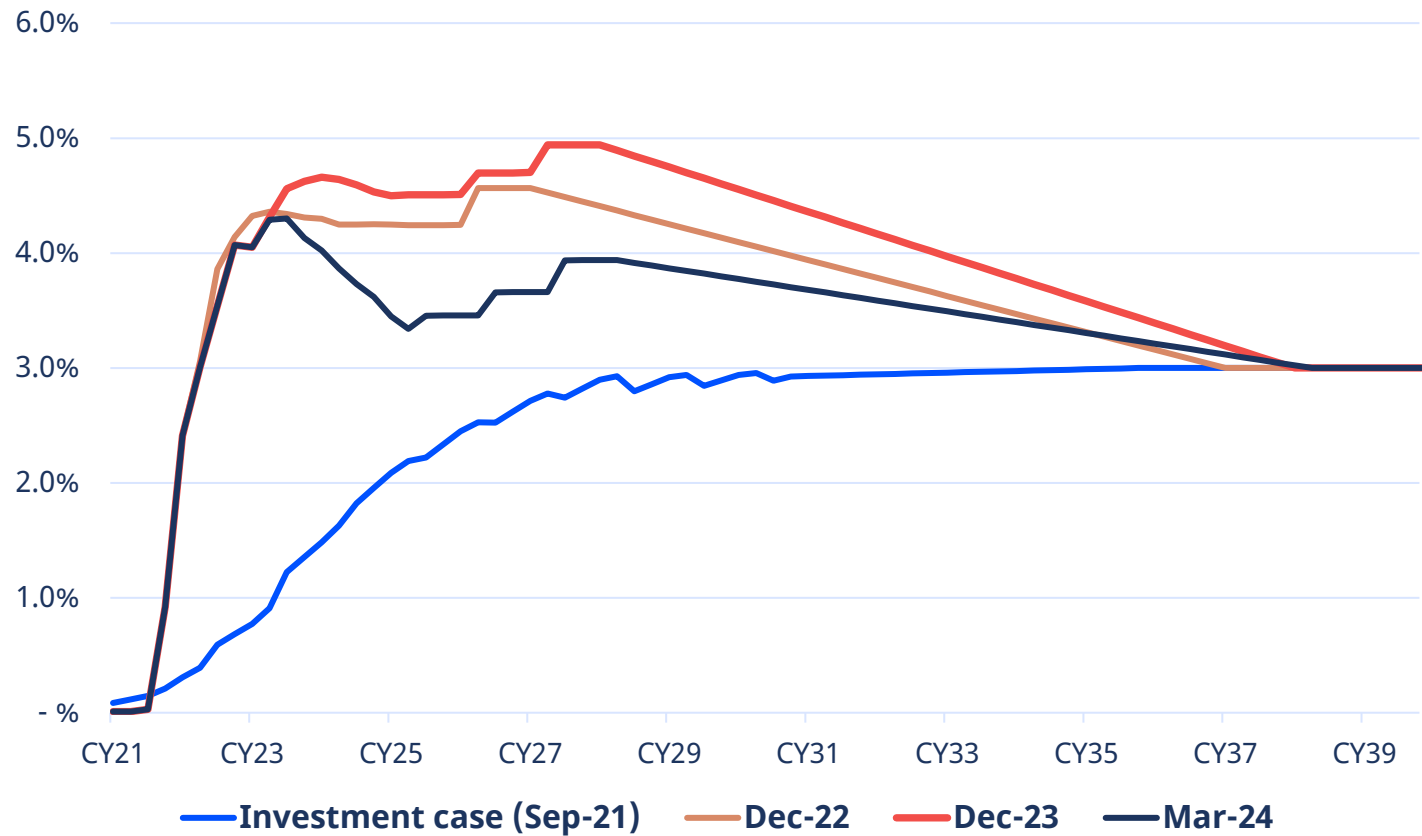
- Not ART!
- All assets are valued by external independent valuers or external investment managers

*Infrastructure assets in excess of \$A500 million valued quarterly. **For direct investments, co-investments and core funds in excess of A\$500 million.

Valuers have been assuming interest rates would normalise at some point



Valuation model curves



- Interest rates have risen substantially, reducing the valuation, but:
 - Hedging was in place in the short term, and
 - Reversion to long run rates was already priced
- Inflation-linked revenue increases offset higher rates
- Demand for inflation-linked assets has increased



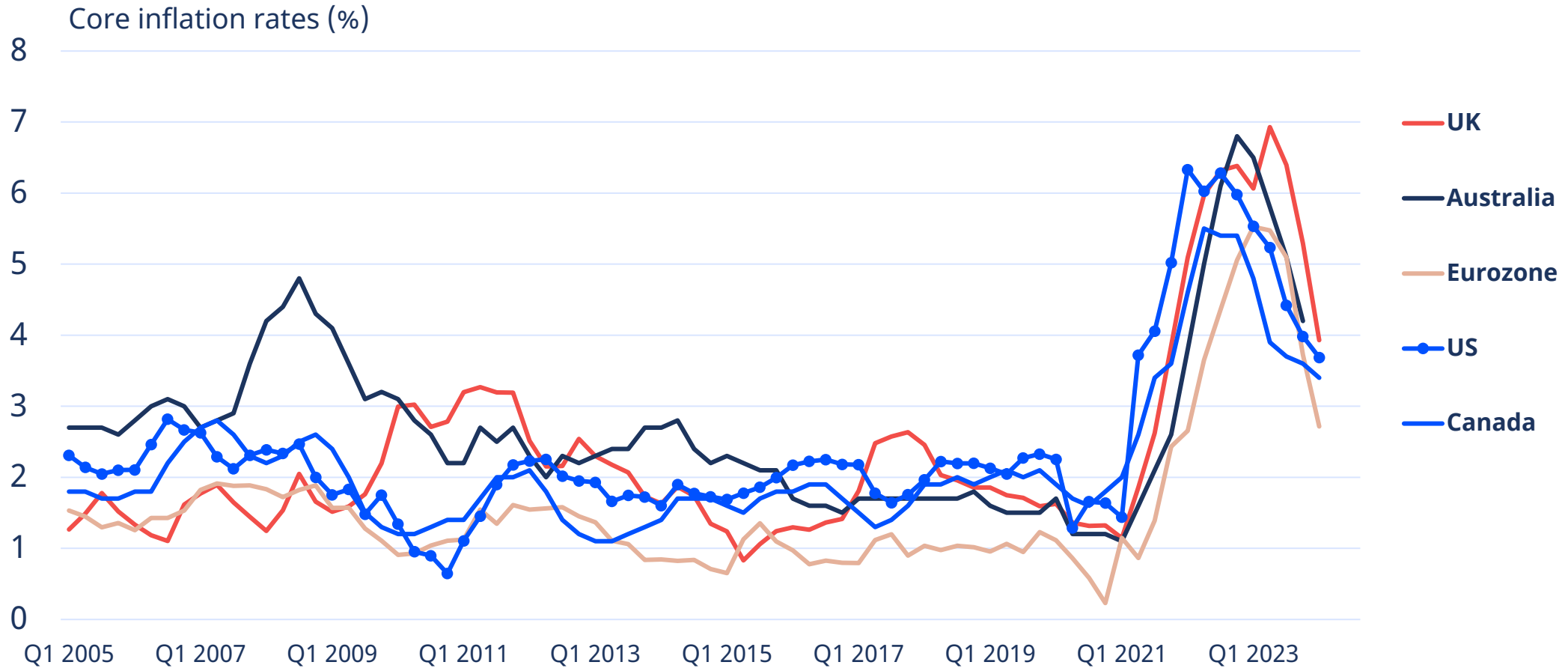
Amplitel

- ART infrastructure investment since 2021.
- Largest mobile tower infrastructure provider in Australia
- Strong future revenue growth driven by mobile data growth and 5G rollout in Australia
- Inflation linked revenues and a high proportion of hedged debt have more than offset the rising interest rates
- Returns around 18% in 2023 and well above business case since inception





After soaring to multi-decade highs, inflation is declining..



*Japanese core inflation adjusted for consumption tax increases in 2014

Source: Refinitiv. Core is the trimmed mean inflation rate for Australia and Canada and ex food and energy elsewhere.



..largely due to goods prices and easing supply chain pressures

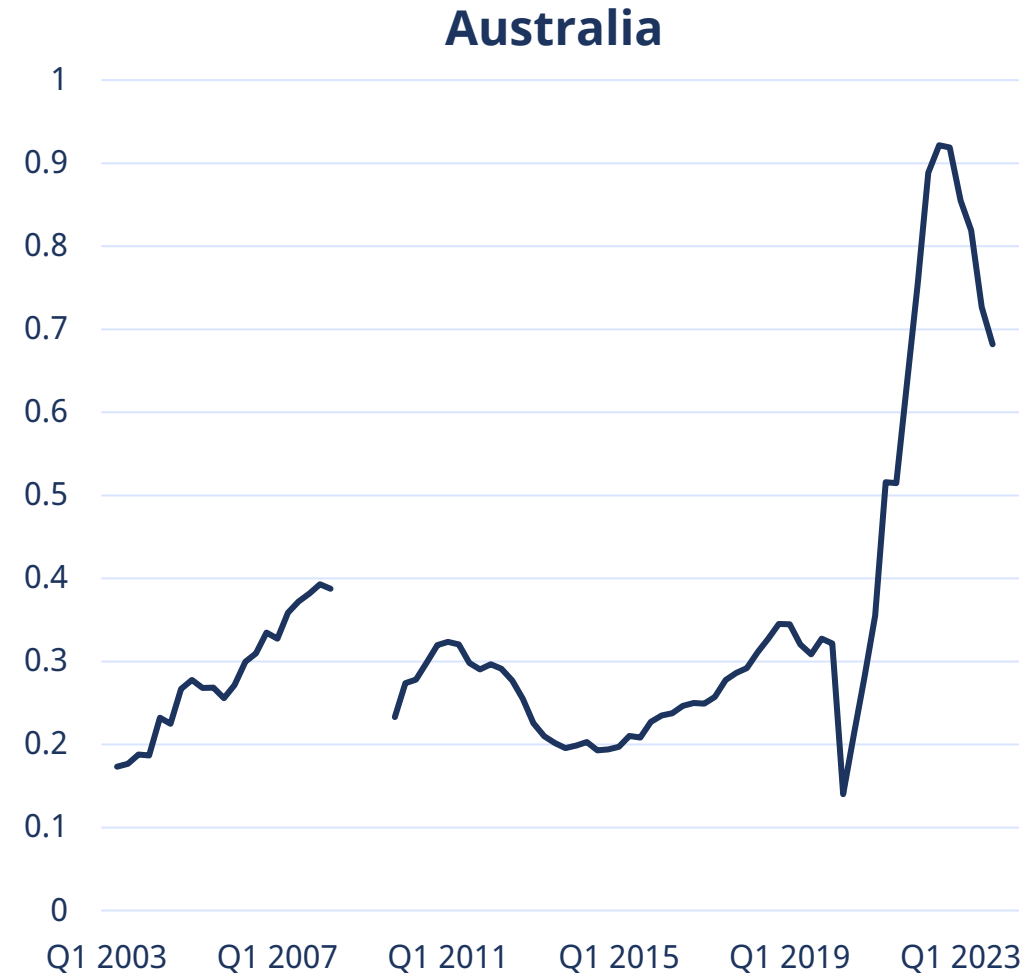


Sources: Federal Reserve Bank of New York, Refinitiv. *Index based on a range of variables, including air and sea freight costs, new orders, order backlogs, supplier delivery times and inventory levels for US, China, Eurozone, UK, Japan, Korea and Taiwan. Index measures no. of standard deviations from its long-term average.



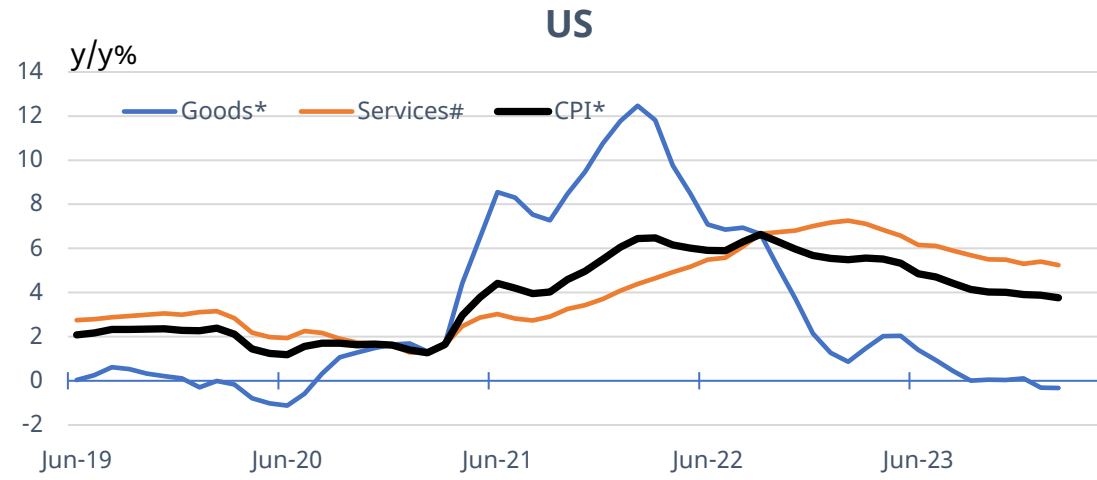
However, labour markets remain very tight..

Number of job vacancies per unemployed person

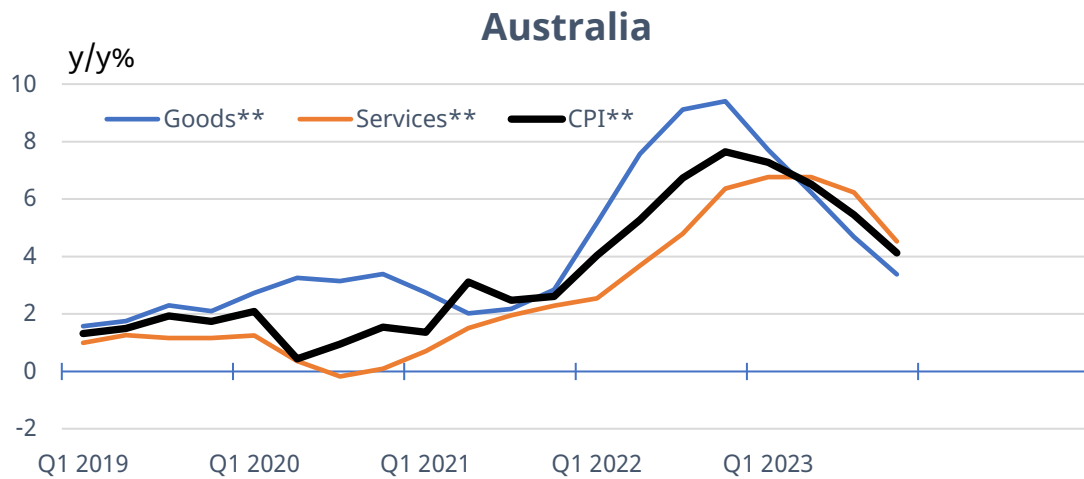
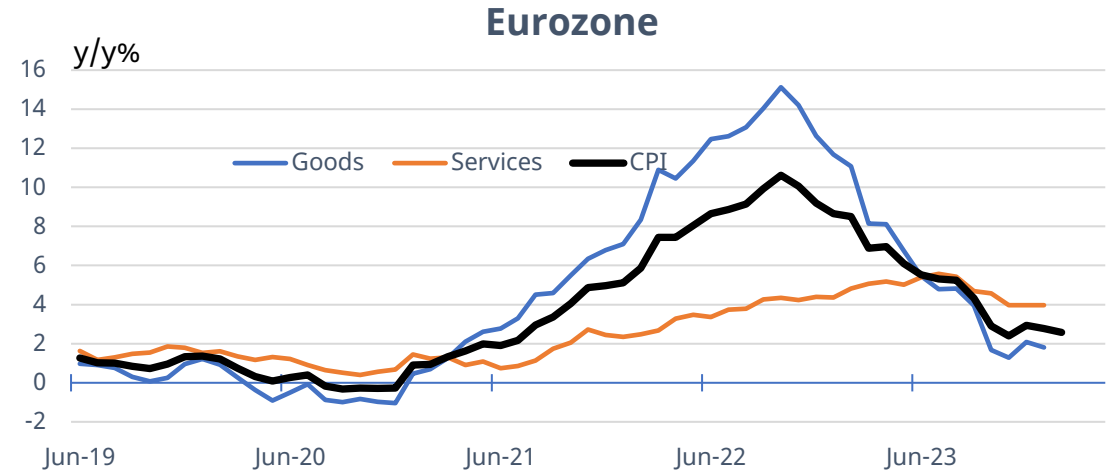


Source: Australian Retirement Trust, Bloomberg, Refinitiv.

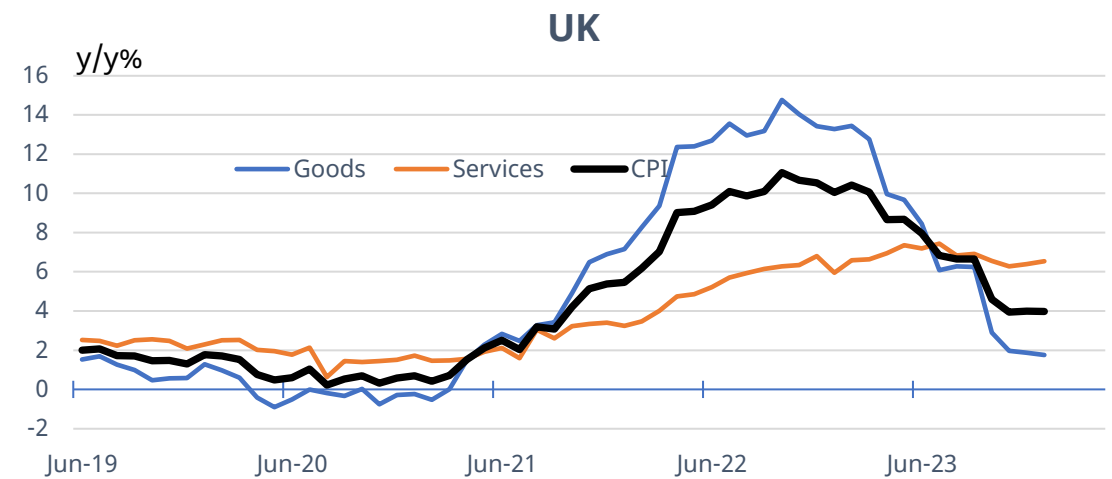
..and service price inflation is more persistent



*Excluding food and energy items. #Excluding energy services



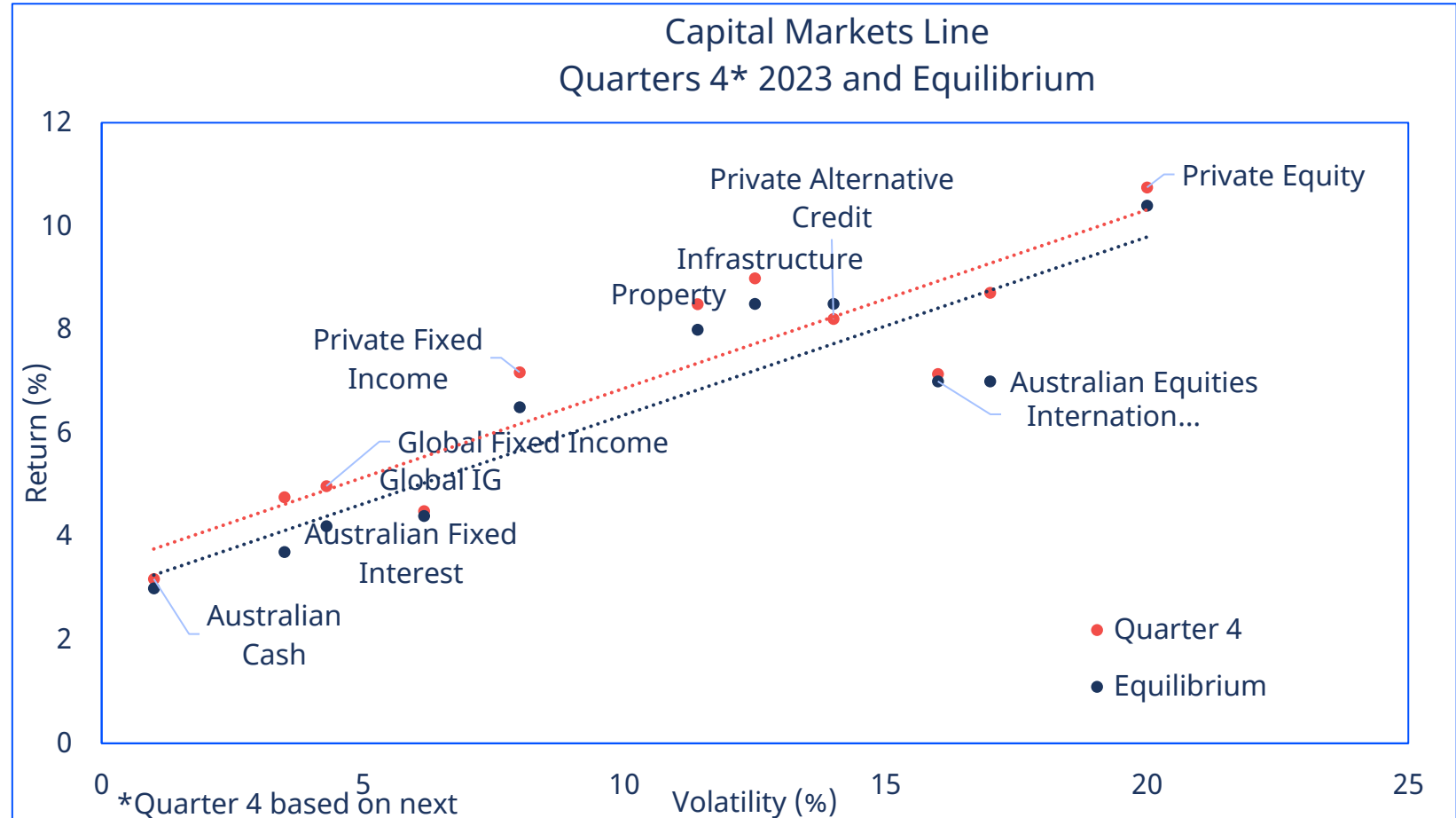
**Excluding volatile items





What do future returns look like?

- Expected (10yr) returns higher than equilibrium estimates for many asset class
- Higher interest rates equals higher future returns!
- Cash and bonds look a lot more appealing than they did a two years ago
- Higher discount rates, cap rates on offer for infra, real estate
- Expected equity returns are broadly unchanged





Airtrunk

- ART invested \$250 million into Airtrunk, a leading hyperscale datacentre operator in early 2020.
- Six datacentres in operation, five more under development across Australia, Singapore, HK, Japan and Malaysia.
- Long-term contracts with global cloud computing and consumer internet companies across the region
- Performance has been well in excess of business case
- More than sevenfold increase in EBITDA since acquisition
- Return *circa* 25% in 2023





Elevation Healthcare Properties

- UK healthcare property investment focused on aged-care assisted living
- Demographic tailwinds offer inflation protection
- Supply shortage underpins the investment thesis
- ART invested £330m GBP in late 2022
- Targeting a 10.5% return over 10 years



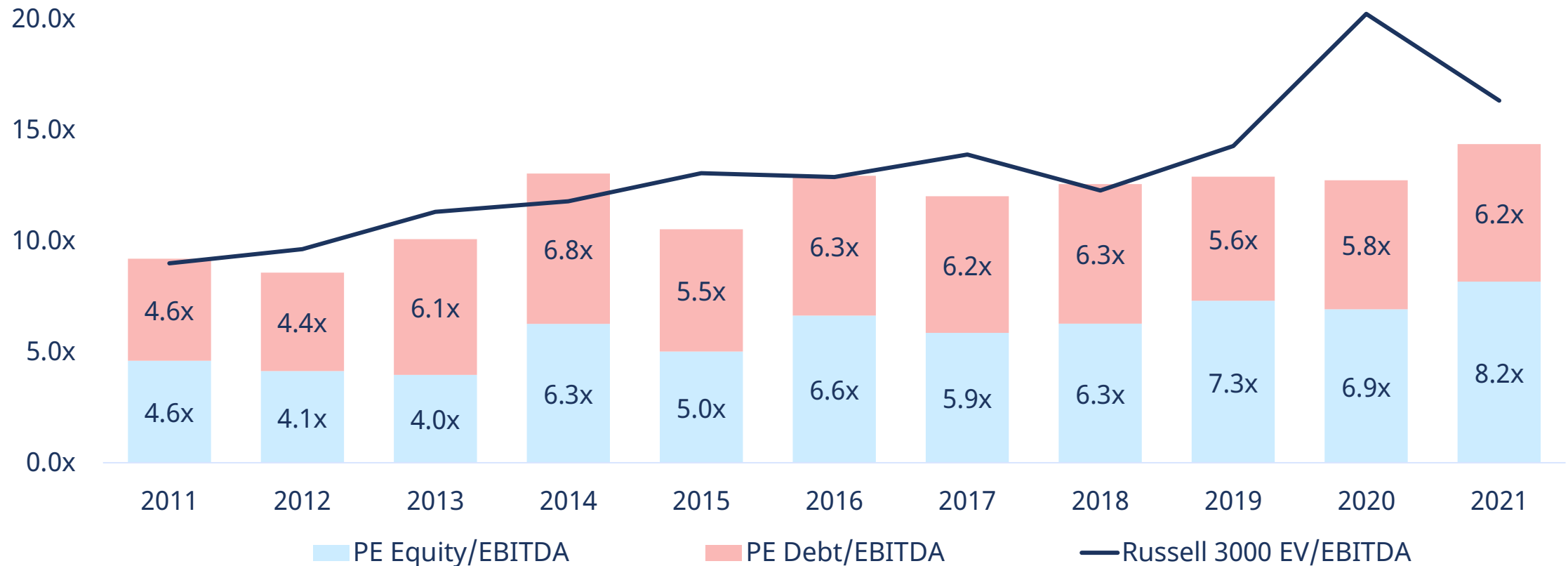


BoColiving

Norwegian student accommodation

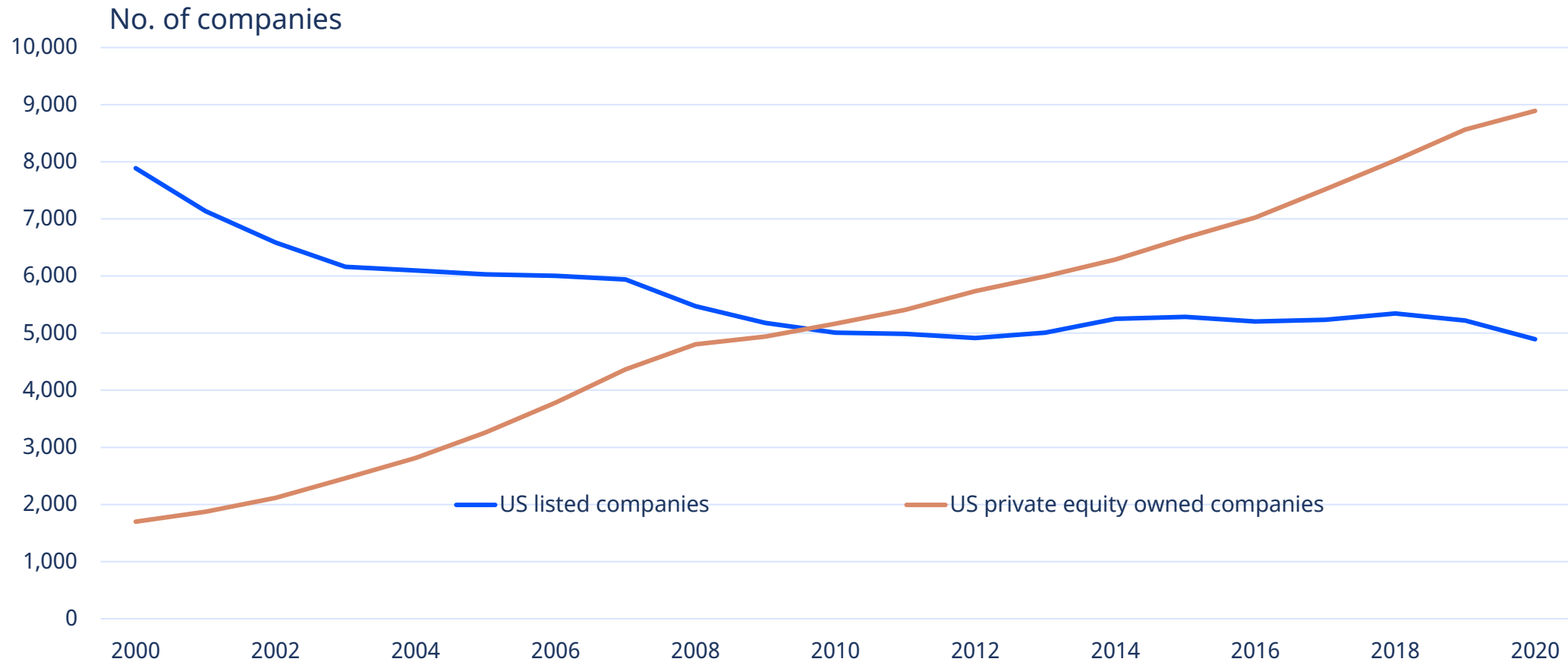


Private equity multiples generally LOWER than public markets





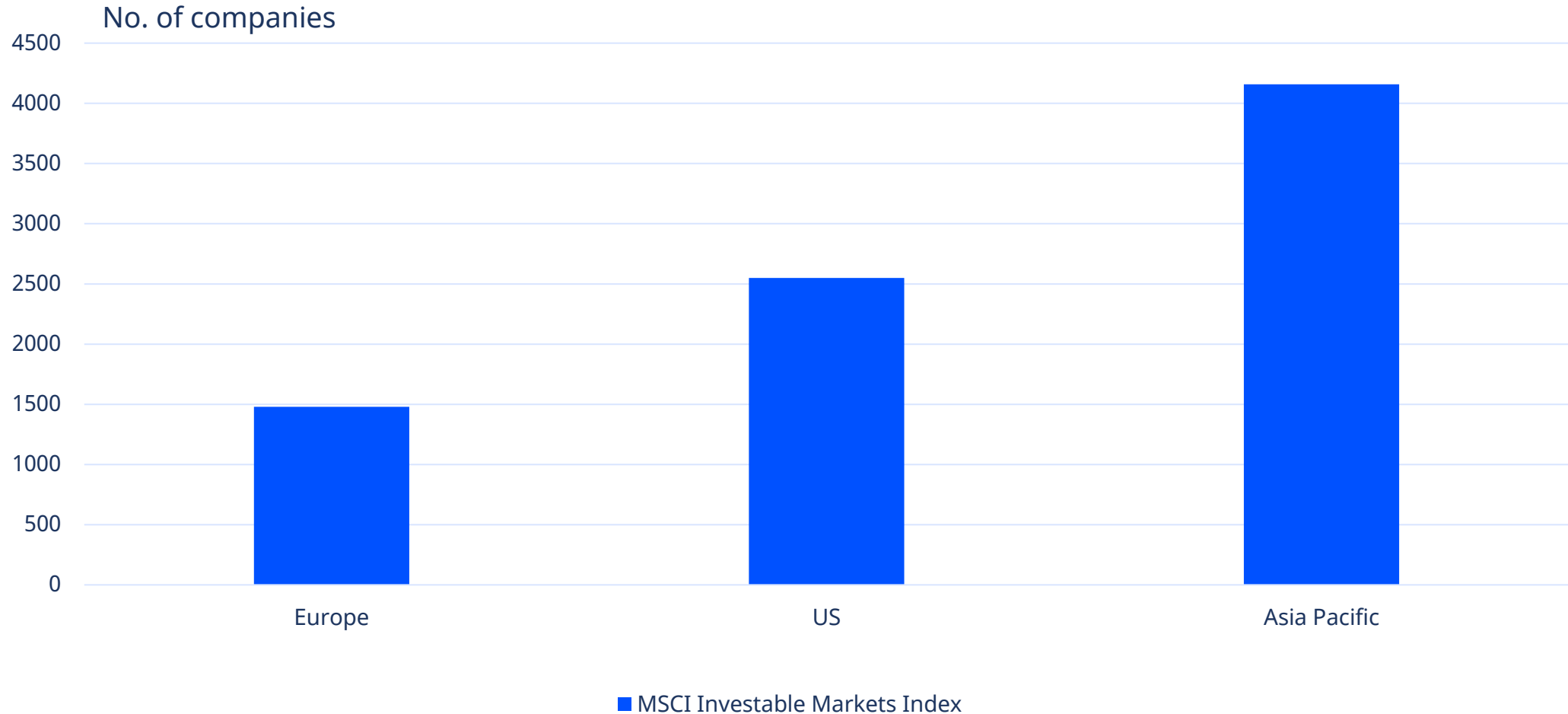
The rise and rise of private equity



Sources: Neuberger Berman, PitchBook and World Federation of Exchanges. Data as of December 2020, the most current available data from the World Federation of Exchanges.



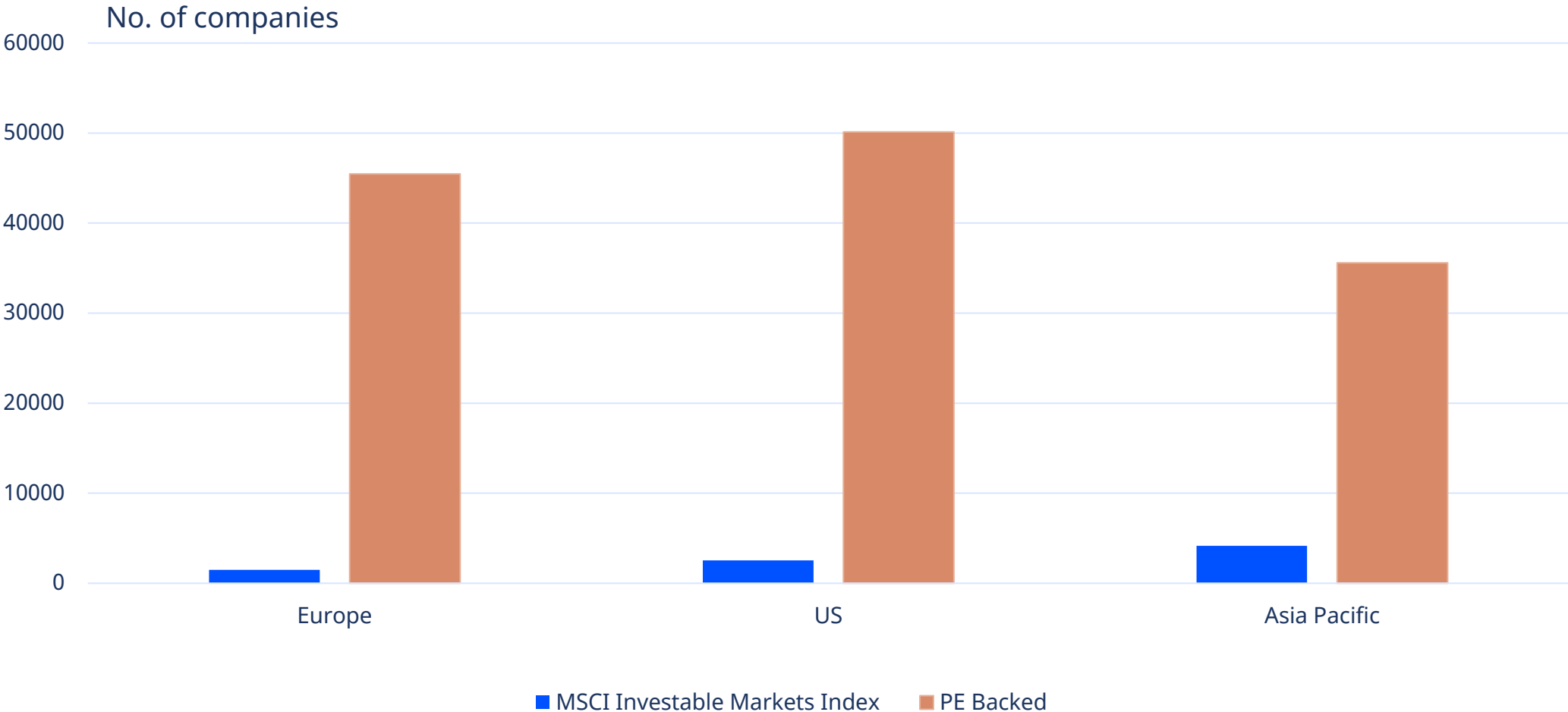
The rise and rise of private equity



Sources: HarbourVest, Burgiss, MSCI, Pitchbook. Data for MSCI as at May 31 2022. All other data as of 31 December 2021.



The rise and rise of private equity



Sources: HarbourVest, Burgiss, MSCI, Pitchbook. Data for MSCI as at May 31 2022. All other data as of 31 December 2021.



LMS Energy

Bioenergy and methane abatement specialist
and an ART private equity investment



Quiz Questions – Table Discussion

1. Which Asset classes is most popular with your clients right now?
 - A) Equities
 - B) Fixed Income
 - C) Property
 - D) Infrastructure

2. What are the biggest financial markets concerns facing your clients right now?
 - A) Interest rates
 - B) Cost of living & inflation
 - C) Geopolitical risk

3. Why do private companies trade at lower multiples relative to their public counterparts?
 - A) Liquidity
 - B) Information asymmetry
 - C) Regulatory requirements

Questions?





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