apss
AUSTRALIA POST SUPER SCHEME

Insight

News from the Australia Post Superannuation Scheme
Quarter ending December 2019

Investment basics

What you need to know

INSIDE THIS EDITION

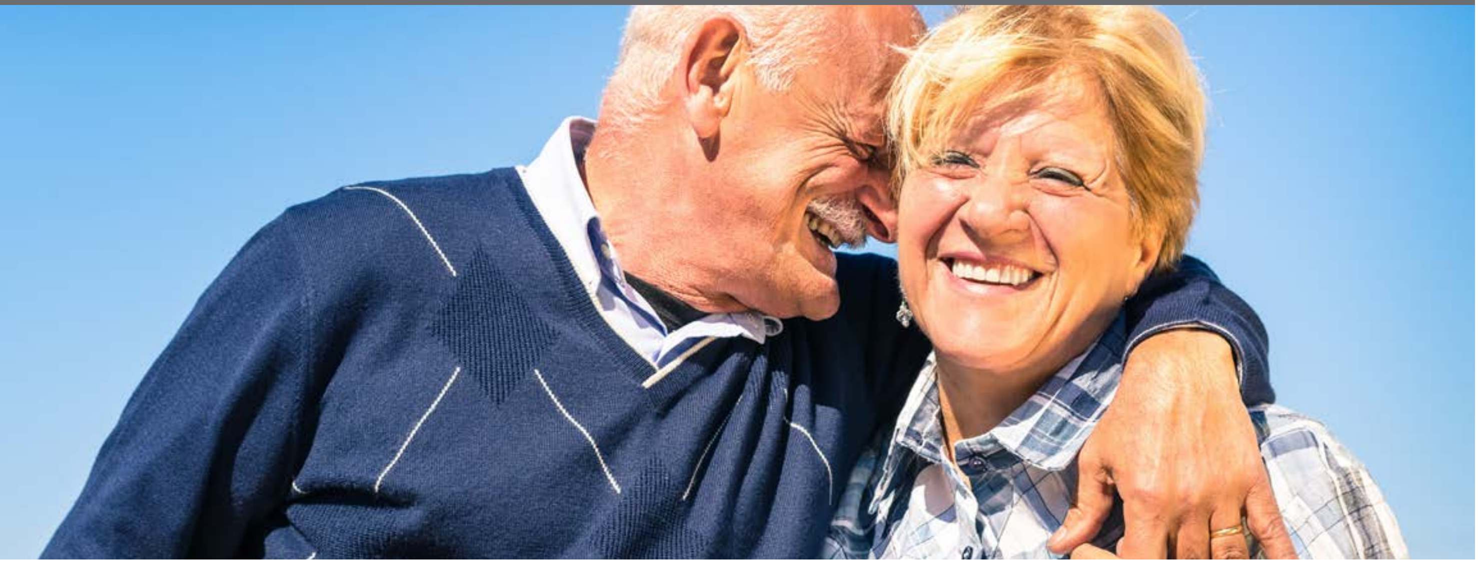
- Investment basics: What you need to know
- Investment round up for the quarter ending 31 December 2019

A new year is always a good time to review the investment choices you have made for your super and either confirm that they still match your goals, or make adjustments if necessary.

It is even more important when the decade ahead is expected to give investors a rather different experience compared to the decade just finished. So what exactly should you think about when making an investment choice?

In this edition of your member newsletter, *Insight*, we get back to the basics of investing so you can make better-informed investment choices in the 2020s.

Investment basics



The last few years have generally been good for investing in super fund options that have higher allocations to share markets and other 'growth' investments. But, in the last edition of *Insight*, we wrote about the outlook for lower investment returns in the coming decade, particularly compared to the last one. So what should you think about when faced with the various super investment options available for the money you choose to save in super yourself? You need to start with the basics of investing.

Common investment terms

Let's begin by looking at some of the most common terms that are used to talk about investing.

Assets and different types of investments

An asset is something you invest in. This may include property, shares, bonds or putting cash in the bank. There are two main types of assets:

- Income assets are typically lower risk and more stable over the short term, but tend to produce lower returns over the long term. Cash and bonds are examples of income assets.
- Growth assets typically are higher-risk investments and more volatile in the short term, but tend to produce higher returns over the long term. Shares and property are examples of growth assets.

The four investment options provided by the APSS have different proportions of growth and income assets, with the Cash option all income, and the High Growth mostly made up of growth assets. The Conservative option has more income than growth assets. The Balanced option is the other way around, targetting growth over income.

For more details, check *How your super is invested* by exploring the APSS investment structure document that can be downloaded from the *Investment strategy* page at **apss.com.au** under the *Investments* tab. The income/growth split is provided at the bottom of page 2 of this investment structure document, and is updated quarterly.

Investment return

The return on an investment is the amount of money an investment earns or loses over time.

Some of the return can be income earned by the investment (such as interest or rent). The value of some assets can also increase over time – this is called a capital gain. For instance, the price of a share may increase providing a capital gain.

A return can also be negative. If an investment loses value over time, this is called a capital loss. For instance, the value of property may fall, providing a capital loss.

The total return you receive on an investment depends on both investment income and any capital gains or losses.

Investment returns are normally shown as a percentage of the total amount invested.

Investment basics

Investment risk

All investments come with some risk, and risk can be both short term or long term.

Short term investment risk

Short term investment risk is the potential for your savings to go up and down in value over time.

If the returns from an investment are likely to change a lot over the short term, it is called a 'high risk' or a 'volatile' investment. If the returns are quite stable and don't change much over the short term, it's called a 'low risk' or 'stable' investment.

Over the short term, growth assets can be volatile. Over the long term, however, they have generally earned more than income assets.

Over the short term, income assets tend to be less volatile (or risky) than growth assets. However, they have generally earned lower returns than growth assets.

Long term risks

- **The risk of not having enough money in retirement.**

  As a society, we are living longer than ever before, which means that we could be looking at spending another 30 years or more in retirement. It's nice having the extra time, but some of us face the risk of our savings not lasting through retirement. See page 4 for information on how much you may need to save, depending on your circumstances.

- **Your savings not keeping pace with inflation.**

  Putting money into less volatile investments like the Cash option looks safer in the short term, and it is: you don't have the risk of capital losses, and your money can still grow. But in the long term, investing in cash may mean that your savings might not keep up with inflation. Inflation eats away at the value of your money and drives up the price of things.

  The Conservative option is expected to produce returns marginally above the rate of inflation in the medium term. The Balanced and High Growth options are more likely to produce returns that significantly beat inflation over the long term. See page 5 for more on inflation.

Spreading your risk

If you invest in a mix of growth and income assets, you spread your investment risk.

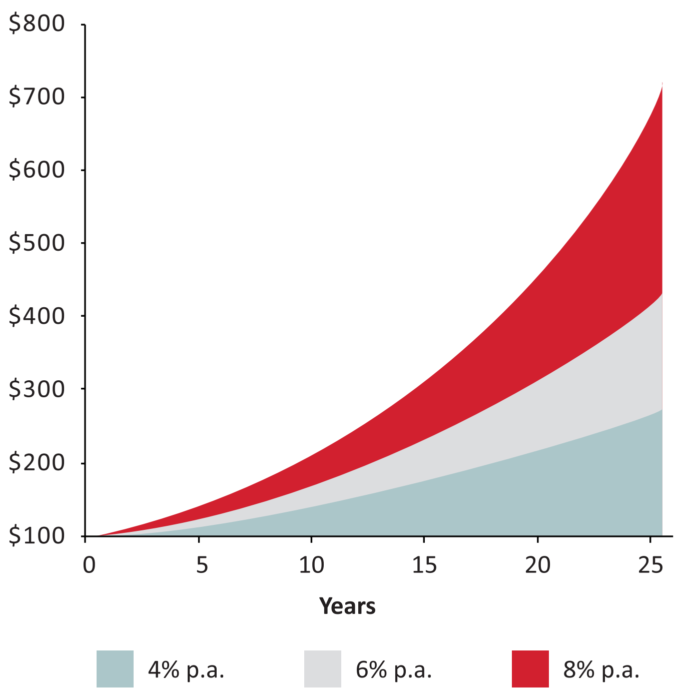
The four investment options in the APSS let you spread your savings between income and growth assets in different proportions to suit your circumstances. The Cash option only has income assets, the Conservative and Balanced options have a mix of income and growth assets, while the High Growth option is mainly invested in growth assets.

Earning interest on your interest

When you invest your savings, you earn investment returns. If positive, these investment returns are added to your account balance and the total is invested again, where it goes on to earn more investment returns year after year. This is known as compounding returns.

And the longer you invest, the more you'll benefit (assuming positive returns). The graph below shows an example of how a $100 investment could grow over time because of compounding returns.

So, time and investment returns are key factors that can make a big difference to how your savings grow.



Investment basics

What to think about before choosing an option

Making your investment choice is a personal decision. What suits you, may be different to what suits your family or friends. To get you started, here are a few questions to think about.

How much money will I need to save?

This really depends on your personal circumstances, but the Association of Superannuation Funds of Australia (ASFA) has done some calculations that can be a useful guide. ASFA updates these calculations every quarter – visit **www.superannuation.asn.au** and click on *Resources* in the main menu, then *Retirement Standard*. The calculations benchmark the annual budget needed by Australians to fund either a 'comfortable' or 'modest' standard of living in their after-work years. A modest retirement lifestyle is considered better than the Age Pension, but means you will still only be able to afford fairly basic activities.

A comfortable lifestyle allows you to be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of such things as a nice car, private health insurance and the occasional international holiday.

With this in mind, think about how much money you may need to live on and more importantly, maintain the lifestyle you want, in retirement.

To work out your likely retirement income, employee members entitled to the 14.3% Defined Benefit can login to their account via **apss.com.au** and use the Retirement Calculator. It will show you an estimate of the yearly income you'll get from your super plus income from the Age Pension (if you're eligible). It will also show you how long your super is expected to last depending on how much you withdraw each year.

How long will my savings be invested?

You need to think about how long you plan to invest your super before you retire, as well as how long you want your savings to last once you do retire. The reality is that you may live another 30 or more years after you retire.

Take a look at the table below to see how long you might need to keep your savings invested based on how old you are now and your life expectancy. These time frames are averages so you may well live beyond these ages!

Current age	Male life expectancy	Female life expectancy
25	81	85
35	81	85
45	82	85
55	83	86
65	84	87

Source: Australian Bureau of Statistics, Table 1: Life Tables, States, Territories and Australia – 2016-18 (30 October 2019 release). See *https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3302.0.55.0012016-2018?OpenDocument*
Note that life expectancies above have been rounded down to the final expected birthday.

Investment basics

How will inflation affect me?

When you think about how much money you are likely to need, remember to take inflation into account. Inflation increases the cost of living and erodes the purchasing power of money, so by the time you retire, your day-to-day living costs will be higher than they are today.

For example, the purchasing power of $100 in 1990 had almost halved by 2018 with the $100 "basket of goods and services" you could have bought in 1990 costing $197.21 in 2018 (see **www.rba.gov.au/calculator/**). Imagine how much less purchasing power it will have in another 20 years.

When you save for retirement, it's important that your savings grow more than inflation over the long term. Let's revisit that example of the diminished purchasing power of $100 from 1990 to 2018. If you had 'saved' that $100 in a piggy bank at the back of your wardrobe, you would still have $100 in 2018, but you could buy only about half as much with it. On the other hand, if you invested that $100 in 1990 in a way that achieved an average annual compounding crediting rate of 5% p.a., that $100 would have been worth around $400 by 2018, according to ASIC's MoneySmart 'Compound interest calculator' (visit **moneysmart.gov.au** then click *Calculators & resources* in the main menu. The *Compound interest calculator* is one of the 'Top 10' calculators under *Investment calculators*).

So keep this in mind when you are deciding which option(s) to invest in.

How much risk am I comfortable with?

Investment risk means different things to different people. To most however, it is the chance that investment returns may go up or down in value over time.

You cannot consider investment risk without investment return. Generally, the higher the risk, the higher the potential return over the long term, and vice versa. You must make a trade-off between the level of return that you are comfortable with on the one hand, and the level of risk that you are comfortable with on the other.

The level of risk you can cope with can change through your working life. For instance, if you are closer to retirement, you may decide to choose a lower-risk investment option and not be too concerned about returns, if the most important thing to you is protecting your money.

However, if you have many years to go before you need to access your super, you may decide to choose a higher risk option and seek higher, long-term returns.

More information

To find out more about investing or the investment options available to you, visit **apss.com.au**

You can get advice about how to invest your super

All APSS members can access free general advice by contacting the APSS SuperPhone service on **1300 360 373**. Our service representatives are not licensed to provide personalised advice.

If you would like personalised financial advice, you are free to choose any financial planner of your choice. The APSS Trustee has a relationship with State Super Financial Services Australia Limited, known as StatePlus, who are a licensed financial planning group. To access these services, call **1800 620 305**. Please note that neither the APSS Trustee nor the Australian Postal Corporation endorses, recommends or guarantees any services provided by StatePlus. StatePlus is responsible for the advice given to APSS members under this arrangement.

Investment round up

Each APSS investment option has its own underlying investment portfolio. Each option's crediting rate is determined by the investment return of its portfolio less the costs associated with investing those assets. With the exception of the Cash option, which is always invested in cash (and cash equivalents), each option has a mix of assets, just in different proportions. A portfolio with a higher allocation to shares and other 'growth' assets (e.g. the High Growth option's portfolio), is expected to deliver higher investment returns and therefore higher crediting rates over longer timeframes. However, the higher the allocation to growth assets, the more volatile the portfolio is considered to be. The more volatile, the higher the risk of the portfolio dropping in value in the short term.

Crediting rates to 31 December 2019

Member Savings accounts (including Spouse and Rollover accounts)	Cash	Conservative	Balanced	High Growth
3 months	0.21%	1.16%	2.54%	3.79%
6 months	0.48%	2.52%	4.44%	5.57%
1 year	1.33%	7.79%	12.56%	16.03%
3 years (p.a)	1.50%	n/a	7.64%	n/a
5 years (p.a)	1.58%		7.02%	
Transition to Retirement (TTR)* Pensions				
3 months	0.21%	1.16%	2.54%	3.79%
6 months	0.48%	2.52%	4.44%	5.57%
1 year	1.33%	7.79%	12.56%	16.03%
3 years (p.a)	1.54%	n/a	7.85%	n/a
5 years (p.a)	1.73%		7.47%	
APSS Pensions (Tax free)*				
3 months	0.25%	1.33%	2.88%	4.27%
6 months	0.57%	2.89%	5.05%	6.25%
1 year	1.58%	9.01%	14.23%	18.42%
3 years (p.a)	1.76%	n/a	8.80%	n/a
5 years (p.a)	1.86%		8.03%	

Note: The compound crediting rates shown above are after investment costs and tax (where applicable). Before 1 July 2017, the **Cash** option was called 'Cash Return', and the **Balanced** option was called 'Market Return'. The **Conservative** and **High Growth** options commenced on 1 July 2017, which is why returns for periods longer than 1 year are currently not applicable (n/a).

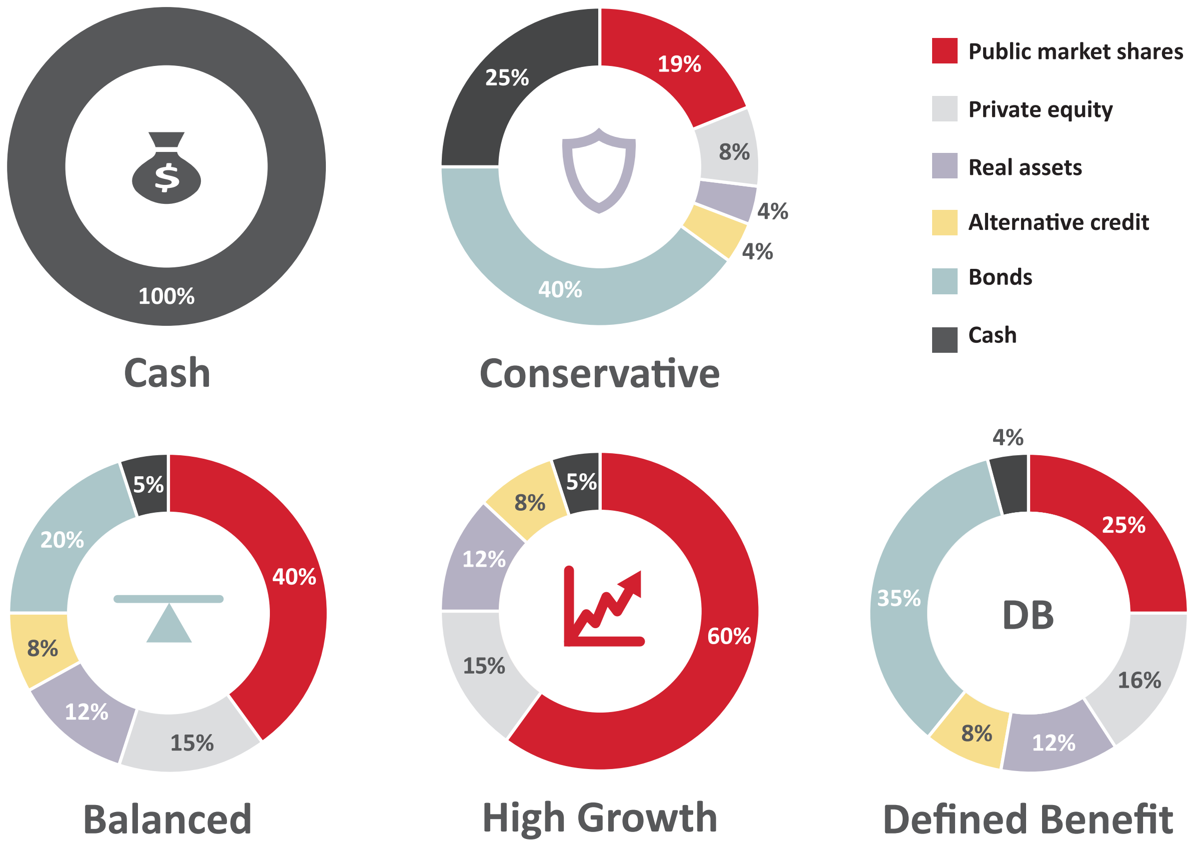
*APSS Pension investment earnings are tax-free, unless you are using an APSS Pension to transition to retirement, in which case earnings may be taxed at up to 15% if you have not turned 65 or met a relevant condition of release and notified the APSS. Use the TTR Pensions table above for the applicable crediting rates where tax applies to an APSS Pension.

Important reminder: Past investment returns are not necessarily indicative of future investment returns.

Investment round up

Asset allocations at 31 December 2019

Asset allocation is the mix of different asset classes (and assets within each class) in an investment portfolio. Strategic Asset Allocation (SAA) refers to the strategy used to achieve a particular investment objective. Actual asset allocation is a snapshot of the mix of assets at a particular point in time. This might vary from the SAA, but only within allowable ranges that are set as part of the overall investment strategy. The following charts show the actual asset allocations as at 31 December 2019 for the four APSS investment options, along with the assets invested to provide benefits to members entitled to an APSS Defined Benefit as required:



Defined Benefit portfolio

The Defined Benefit portfolio's investment return (i.e. crediting rate) has no financial impact on the APSS Defined Benefit for most members. This is because that entitlement is determined by a formula, rather than the investment returns of the portfolio. The only exception is where a member has an 'Other Offset Account', which won't apply to most members. If it does, you'll see it on your annual benefit statement, and you should also check our fact sheet on *Using your APSS Defined Benefit to transition to retirement*, which provides more information on such accounts and the effect of compounding interest applied to them. You can download the fact sheet in the *Fact sheets* section under the *Publications & Forms* tab in the **apss.com.au** main menu.

Investment round up

Behind the numbers

Signs of a slight improvement in global economic activity and a decrease in political uncertainty, for now, gave a boost to the world's share markets, leading to positive returns for the APSS's High Growth, Balanced and Conservative investment options in the December 2019 quarter. The Cash investment option tracked Australia's official cash interest rate as it fell to a new record low.

World Markets

The US government put its trade war with China on a temporary hold in November, in order to work on the first round of a hoped-for trade agreement, giving encouragement to global share markets. A convincing win to the Conservatives in the UK general election in December brought greater clarity about the path to completing Britain's exit from the European Union. The UK share market rebounded on the news. Central banks around the world meanwhile continued to support financial markets with ultra-low interest rates and injections of new money into the system. The US Federal Reserve cut its target cash interest rate again, down to 1.75% per annum. Along with some better-than-expected US economic data, conditions during the December quarter led to a 7.5% gain across share markets in the developed world and an even better 9.5% rise across emerging markets, including China, India and Latin America.*

The shift towards a more optimistic mood in markets had the opposite effect on the traditional safe-haven of government bonds, as investors switched to riskier asset classes. International government bonds lost 1.5% in aggregate value.*

In spite of the swing in market sentiment last quarter, uncertainty remains over the future of US-China trade negotiations and the pace of global economic growth in 2020.

* Market return figures are sourced from Willis Towers Watson

Australian Market

As we reported in the last update, the Reserve Bank of Australia (RBA) cut the official interest rate here from 1% to 0.75% in October, keeping it on hold at this level into the New Year. The RBA made note in its public announcements of the slight improvement in the international and domestic economic outlook but pointed to the pressure on consumers and businesses from high household debt, the drought and other factors as reasons for keeping interest rates low, even before taking the terrible summer bushfire season into account.

The Australian dollar reversed its drop against the US dollar in the prior quarter, appreciating by nearly 4% in the December quarter. It also gained against the Euro and Japanese Yen, but weakened against the UK Pound after the UK election result. The net effect of the stronger Australian dollar was to dampen the returns on investments held in overseas markets marginally.

Australia's share market was far more subdued than international markets in the December quarter, returning just 0.7%, before surging in value at the start of the New Year.

Impact on APSS investments

The APSS's public market share investments gained 5.6% for the quarter, reflecting the strong international but lower domestic market returns. That made it a remarkable 24% gain on shares for the full twelve months of 2019. Returns on the other asset classes were weaker as a function of currency and bond market conditions, among other factors. Our private equity investments had a flat quarter, real assets gained 0.7%, while alternative credit and bonds lost 0.3% and 0.7% in value respectively. The return on cash was 0.2%, in line with Australia's cash interest rate. All of these figures are quoted before tax.