FACT SHEET

Investment Options in Superannuation

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A superannuation fund offers you various investment options through which contributions may be invested. It is your responsibility to understand what sort of assets your money is invested in and the risks associated with these types of investments. It is also important to see that the investment types are suited to your needs, objectives and time frames. The trustee of the super fund handles the management of the investment portfolio.

As an employee it is compulsory for your employer to contribute your Superannuation Guarantee to a 'MySuper' fund when you have not nominated a fund of your choice. MySuper is a low cost product diversified over the various investment markets and replaced previous default investment options. Some providers will provide 'lifestyle options' which will automatically vary the asset mix, depending on the age of the member.

Risk versus Return

The risk associated with the investment is often reflected in its return. Low risk assets usually have more stable but lower returns. Conversely, more volatile assets have bigger variations in value but tend to have a high return in the long run.

A general rule of thumb is that less risky investments should be considered for shorter time horizons (the time until the money is needed). Since high risk assets are expected to perform better in the long term they suit longer time horizons. The high volatility of certain assets makes them risky and less suitable for short term time horizons.

Your Risk Preferences May Change Over Time

Most superannuation funds have a selection of portfolios that vary in risk and therefore return, to suit an individual's preferences and stage in life. For example a 30 year old who has a long time until retirement may choose underlying investments with higher risk and an overall higher long term return, whereas a 55 year old may choose lower risk investment portfolios with a lower, but less volatile, return. In this case, the 30 year old may not be concerned with the volatility of the investment's returns, preferring to try to achieve higher returns to combat inflation, while the 55 year old may want a more stable return as they are approaching retirement. It is usually possible to diversify over several of the investment options offered, enabling varying exposure and greater personal control.

Underlying Assets of an Investment Portfolio

Investment portfolios are a combination of underlying assets. The combination of underlying assets chosen depends on the level of risk and return desired. For example more risky portfolios may contain a high proportion of shares and property (referred to as growth assets), while more stable portfolios may invest mostly in term deposits and Government bonds (referred to as income producing assets).

Some asset classes that you may choose from include:

Cash: The cash sector comprises underlying assets with fixed rates of return and short investment time frames. They are considered low risk and can produce dependable income. They have no likelihood of capital growth and potential of capital loss is low. On-call or At-Call accounts, cash management accounts/trusts, Bank Bills and term deposits are typical products in this sector. The duration of these assets could be up to six months.

Fixed Interest: Within this sector there are a number of investment options, which differ in their yield, security and flexibility. Commonly, fixed interest is used to provide a higher level of security and a strong income stream, with little potential of significant capital growth. Again, the underlying assets are in the fixed interest market but have a longer duration than cash. Common assets in this sector are government bonds, mortgage trusts, longer term fixed term deposits and debentures.

International fixed interest bonds may also form part of the asset allocation in various managed funds. The duration of underlying assets would usually be up to 5 years though some may be as long as 10 years. Treasury Bonds in the United States have terms of up to 30 years.

Property: Underlying assets in the property sector can be held both directly and indirectly and are often perceived as risk averse. Common directly held property assets in Managed Superannuation Funds include commercial, retail, industrial and sometimes rural real estate. Self-Managed Superannuation Funds (SMSF) often hold residential property as well. Despite the perception that the sector is risk averse, property values are subject to some volatility and there is potential for capital loss. Listed property trusts are traded on the share market and values vary in line with the market's perception of the management of the trust and its underlying assets. Unlisted trusts are subject to liquidity and valuation risk depending on economic and market conditions.

Australian Shares: The Australian share market historically offers opportunity for strong capital growth over the medium to long term. It is, however, volatile and losses can occur if assets have to be sold when the market is down. You should be prepared to maintain a long term view in the face of extreme short term fluctuations in the market.

International Shares: International shares, like Australian shares offer the opportunity for long term capital growth. Investing offshore offers greater diversity due to access to larger markets. They are very volatile in the short term and therefore considered a long term investment. International shares are subject to other risk factors, such as currency fluctuation, that can affect the risk/return equation.

Superannuation and Investment Portfolios

Trustees of managed superannuation funds are responsible for managing the investment portfolios, so you, unless in a SMSF, need only be concerned with the choice or combinations of investment options to suit your personal circumstances. The options available will be set out in the fund's Product Disclosure Statement (PDS), which should explain the nature of the underlying assets, and potential returns and risks. There is often a cost involved with switching from one portfolio to another.

The most common investment portfolios offered by superannuation funds include:

- **Capital Guaranteed Investment option**: This investment option usually guarantees the return of net contributions plus interest, once credited to the account. The guarantee is made by the organisation offering the superannuation fund. The guarantee is only as good as the organisation providing it. Guaranteed options are now rarely offered.
- **Capital Stable/Capital Secure Investment option**: - Money invested in this option is usually placed in investments that are 'low' risk (i.e. less volatile) assets, such as fixed interest, etc. but may have some exposure – up to about 30% - to growth assets. These assets can decrease in value. There are no guarantees offered.
- **Market Linked Investment options**: These options usually invest in more volatile assets such as shares (both Australian and overseas), property, futures etc. Many superannuation funds have different investment options within this class reflecting the percentage of exposure to the more volatile assets. Balanced, Managed and High Growth are among words used to describe these investment options and their volatility varies with the exposure to the abovementioned assets.

To find out more about your super, contact your fund. Taking the time to get to know your product options and effectively managing your super while it is in the accumulation phase can make a huge difference to the end balance when you reach retirement. The basic rule to follow is to match the risk of investments with an appropriate time frame. The goal is to maximise your returns to make the most out of your super.