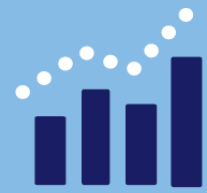


# Investment market update



May marked a third consecutive month of solid returns for Australian shares, delivering more than 3% for the month. The local market was boosted by the RBA's move back into rate-cut mode, driving Australian bond yields down to all-time lows. The cut also sparked a fall in the Australian dollar during the month from a high of 0.771 to a low of 0.715 against the US Dollar. Lower rates and a cheaper currency is generally a positive combination for the share market, and this certainly proved to be the case in May.

With less than one month to go, all UniSuper investment options have delivered positive returns for the financial year to date, although lower than the healthy returns of the past five years.

We will reserve comment on the positives and negatives of the financial year for the July edition, as this month we look at an unequivocally good news story—UniSuper's investment in the Victorian Comprehensive Cancer Centre.

## Performance of key markets

	% CHANGE				
	MONTH	FYTD	1 YEAR	3 YEARS P.A.	5 YEARS P.A.
Australian shares (S&P/ASX 300)	3.1	3.4	-2.1	7.7	7.3
Global shares (MSCI All Country World Local Currency)	1.5	-2.2	-5.0	7.5	7.9
Australian dollar (AUD/USD)	-5.0	-5.7	-5.4	-8.9	-7.4
Australian fixed interest (Bloomberg Composite)	1.3	5.6	4.6	5.4	6.6
Cash (Bloomberg Bank Bill)	0.2	2.1	2.3	2.5	3.1
<b>Balanced option*</b>	<b>3.2</b>	<b>6.4</b>	<b>3.5</b>	<b>10.2</b>	<b>9.5</b>

Returns are for periods to 31 May 2016. Past performance is not an indication of future performance.

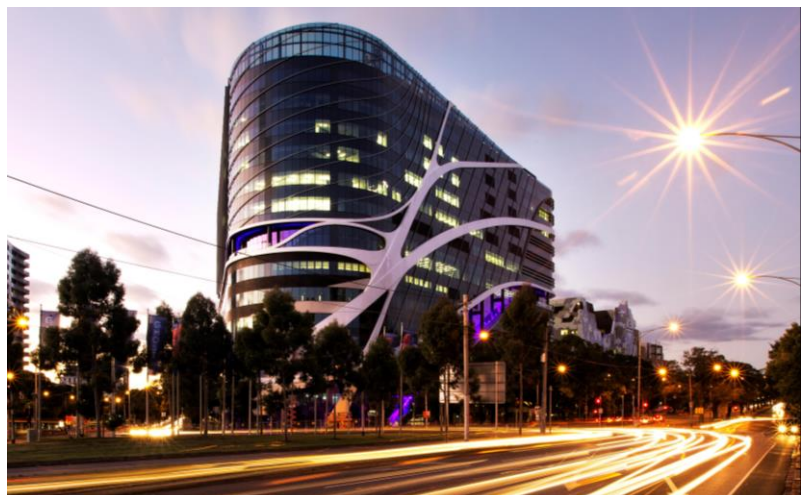
\* Returns relate to our Accumulation (not Pension) investment options and are published after fund taxes and investment expenses, other than account-based fees.

[See performance information for all options](#)

## The Victorian Comprehensive Cancer Centre (VCCC) —doing well for our members and good for society

### Did you know?

- 130,000 Australians are diagnosed with cancer every year.
- More than 1.1 million Australians are living today after having had a cancer diagnosis.
- Over the past three decades the death rate has reduced by 16%.



The Victorian Comprehensive Cancer Centre  
Image: Peter Glenane

Against the backdrop of significant scientific advancement in the treatment of such a debilitating disease, UniSuper is proud to be the major private investor in the Victorian Comprehensive Cancer Centre (VCCC), a world-class facility, purpose-built for cancer research, treatment, care and education. Developed as private public partnership, or 'PPP', the VCCC is the new home of the Peter MacCallum Cancer Centre and will also be home to leading clinical and research staff from Melbourne Health and the University of Melbourne.

### *A note on Public Private Partnerships*

PPPs are investment structures well-suited to the building of public infrastructure. In a basic PPP structure, the public sector commissions a project such as a hospital, school, convention centre or prison, while the private sector (the "concessionaire") undertakes to build and operate the facility to pre-specified standards. A key feature of PPPs is that the government pays the concessionaire a pre-determined income stream so long as certain service standards are met. In this way, the concessionaire is not exposed to volume risk (i.e. the number of students, patients or inmates that utilise the facility). Given that cash flows in a typical Australian PPP are underwritten by the state or federal government, there is generally fierce competition for them, particularly in an environment where yields are so low.

This is not to say that PPPs are always risk free, as payments don't start flowing until the facility is up and running to specifications. There have been a number of PPPs across different sectors that have been troubled by late construction. Recent examples include the Royal Adelaide Hospital, and the Ararat prison redevelopment. When builders underestimate the scope or complexity of a project, and appropriate legal protections are not put in place, investors will lose out.

PPPs are generally long-term and illiquid in nature, so it's important to get the valuation correct. In a fiercely contested bidding process there is an increasingly high chance that the winning consortium will overpay for the asset.

In general, UniSuper is favourably disposed to PPPs, but we insist on conducting our own due diligence to ensure our comfort with the asset and the legal framework governing the investment. As well as the VCCC, we have invested in the Victorian Desalination Plant ("AquaSure"), which is a PPP delivering on return expectations.

### *Our investment in the VCCC*

Our starting point when considering most unlisted investment opportunities is deciding which investment bidding consortium to join. We take a number of things into account such as the track record of the lead arranger and the various terms under which we're able to participate. We use our size to our advantage when negotiating terms, and avoid deals in which we have little control over the outcomes and ongoing governance. Accordingly, UniSuper has two seats on the VCCC Board.

In the case of the VCCC the consortium was led by Plenary Group, responsible for delivering and operating 37 infrastructure projects across Australia and North America worth \$27 billion. In Australia this includes Melbourne Convention Centre, Sydney Metro, and the Gold Coast Light Rail.

As financial investors in the VCCC we were initially attracted by the project's high-quality cash flows, which are backed by the Victorian Government's AAA credit rating. Given the project's appeal, UniSuper committed \$93 million for a 49% stake in the consortium's equity funding.

The consortium was ultimately successful in winning this competitive tender process, and after nearly five years of construction, will open its doors to patients and staff in the coming weeks.

#### *The VCCC's facilities include:*

- a 130,000 square metre facility
- more than 20,000 square metres of dedicated research space, including space for up to 1,200 researchers
- education and training facilities, including 47 seminar and meeting spaces and a multi-purpose lecture theatre
- 96 overnight inpatient beds
- 110 same-day specialist clinics
- eight operating theatres.

## *'Impact investing' and the role of superannuation funds*

'Impact investing' is a term increasingly heard in investment dialogue. Wikipedia adequately defines it as "investments made into companies, organisations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to above market rates, depending upon circumstances."

Impact investing has traditionally been the domain of governments, sovereign wealth funds, philanthropic funds and NGOs. We are now hearing about superannuation funds getting more involved in the space, which is of course admirable, provided that investments are consistent with their fiduciary responsibilities to act in their members' best financial interests.

The call for superannuation funds to become more involved in impact investing has a similar ring to soliciting their involvement in various initiatives that are deemed to be in the public interest. Some well-intentioned special interest groups (together with some not so well-intentioned) have advocated that super funds be required to allocate a portion of their funds to sectors such as social infrastructure, renewable energy, and even venture capital. Advocacy along these lines tends to overlook the fact that superannuation represents the deferred remuneration of people saving for retirement.

However, superannuation is not a pot of capital to be utilised as an instrument of public policy. As a fiduciary we simply cannot consider an investment that delivers 'below market rates', regardless of the virtues of such an investment from a public benefit perspective.

Of course, given choice between projects of similar expected commercial outcomes, UniSuper would opt for the project with greater social benefit, and we suspect most other superannuation funds would do the same. Our investment in the VCCC certainly fits the above definition of impact investing, while at the same time delivering market returns. We would love to do more of these deals but they are hard to come by.

Want to know more about the VCCC? See [www.vcccproject.vic.gov.au](http://www.vcccproject.vic.gov.au)

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This is not intended to be an endorsement of any of the listed securities named above for inclusion in personal portfolios. The above material reflects UniSuper's view at a particular point in time having regard to factors specific to UniSuper and its overall investment objectives and strategies.

Past performance is not an indicator of future performance. This information is of a general nature only and may include general advice. It has been prepared without taking into account your individual objectives, financial situation or needs. UniSuper's investment strategies will not necessarily be appropriate for other investors. Before making any decision in relation to your UniSuper membership, you should consider your personal circumstances, the relevant product disclosure statement for your membership category and whether to consult a licensed financial adviser. This information is current as at 7 June 2016.