Five questions for the Chief Investment Officer—June 2016

Video transcript

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Natalie Eden (NE): Hi, I'm Natalie Eden, Private Client Adviser with UniSuper Advice, and I'm here with UniSuper's CIO, John Pearce. Welcome to this edition of Five Questions for the Chief Investment Officer.

So John, the first question I'd like to ask—we're obviously approaching the end of the financial year, how are returns shaping up for our members this financial year?

John Pearce (JP): Well, Nat, a lot better than I thought it was going to be when I sat at this table a few months ago. We've had a pretty good few months, particularly in global share markets. The Australian share market has been no exception. If you look at this table here, you can see here the Balanced option—which, as you know is the default accumulation option, and therefore the largest accumulation option—is 6.4% for financial year-to-date, 'til the end of May. So barring any major shocks in June, we might be able to eek a positive return for the full financial year. Having said that, returns this year look like they're going to be far more subdued than they have been over the past five years.

I think it's useful just to compare the Balanced option with the general Australian Share Index. It's performed a lot better over last year, three years and five years. To me, that really is a very positive story about diversification. Obviously, your typical retail investor will concentrate on one asset class, maybe cash and Australian equities. The Balanced option, we're spread across different sectors, different geographies and we're seeing the benefits of that diversification.

I've also included a couple of the other [investment] options here. Our best performing investment option for the last year has been Listed Property. And I must say I think this has dumbfounded all the experts. It's had a fantastic run for five years. Usually, we see some sort of correction, but they keep going. It's very much driven by lower and lower bond yields. I'm a bit weary about overvalued property at the moment, but at the moment, money keeps flowing into it. And our worst performing option has been Global Environmental Opportunities, 1.7% so far year-to-date, but that comes on the back of a pretty strong three-year performance, so a correction was probably due.

NE: Okay. So getting back to the overall performance for our members for this financial year, do you think the upcoming federal election is going to throw a spanner in the works?

JP: The short answer is no, Nat. Generally speaking, commentators tend to exaggerate the impact of a change in government—and even budgets for that matter. The reality with Australian politics… there's not that big a difference between the two major parties. You might see an impact at an industry level such as the healthcare industry or infrastructure, or you might have certain companies affected, but the market as a whole—it's hard to see a major long-term impact if there is a change in government.

Having said that, I'm a lot less sanguine about the situation in the U.S. and the thought of a Trump presidency does concern me, particularly if he carries through on some of the promises that he's making. We've seen the market is fairly sanguine about it now because they don't rate his chances very highly. But, if a Trump presidency was to eventuate, I think that would throw the market into a fair bit of… at east short-term turmoil, just because of the uncertainty. Now, fortunately, the American constitution is such that there are checks and balances on presidential power. So hopefully, now it's just a case of a bit of political posturing to get in, but once if he does indeed get in, we'll see more of business as usual.

NE: Is there anything else that's particularly concerning you about investment markets at the moment?

JP: Well, one of the things that's concerning me is the markets are eerily calm at the moment, and that in itself tends to concern me. And they're eerily calm despite the fact that we do have a couple of things on the near-term horizon that could potentially dislocate markets. On the 23rd of this month, we have the British people going to a referendum to vote on whether or not they stay within the European Union, and that's a pretty big deal. Once again, markets are reasonably sanguine because they don't see that there's much chance of this actually happening. So, if indeed it does happen, it could be quite a dislocation to markets.

NE: And in the recent investment market update, John, you talked about some of the risks and some of the pitfalls of switching investment options in and out. Would you agree, though, that when a client's or a member's circumstances changes, it's an opportunity to review investment strategies?

JP: Of course, Nat. We would always encourage our members to seek advice, particularly when you have major life-changing circumstances such as a redundancy or retirement. It's quite, to me, sensible to seek advice and indeed, it could be that that warrants a change in investment strategy.

But the statistics that we're looking at—it’s pointing to a few cohorts of members that are switching so frequently that you can't attribute it to a change in life circumstances. So clearly we're seeing members that are trying to time the market. And statistics are not in favour of those who try to do it too frequently.

I'd like to show you one of my favourite graphs. Now, if you can follow this, firstly, we're just having a look at the green line, and that is simply the Australian stock market. And the red arrow’s pretty much over the last… since the GFC, we've had four pretty decent rallies. If you were good at timing the market, what you'd actually see is a bunch of members switching from defensive options (such as cash and fixed interest) into growth options (such as shares) to catch the rise in the market.

So let's have a look at the actual switching activity. So where we're seeing here the orange bars, that's showing members that are actually switching into growth options, and where we're seeing the blue bars, that's members switching into defensive options. Have a look at just before these big rallies, what are we seeing? Switch to defensive option, switch to defensive option. Once again, once again. So what's happening here is that it seems to me that human behaviour is transpiring just as we expect. People are getting fearful at the bottom of markets, and this is typical sort of behaviour.

NE: So John, in our upcoming investment market update, you'll be highlighting our involvement in the Victorian Comprehensive Cancer Centre which has been recently built here in Melbourne. Obviously, we're really proud of that involvement, and it seems like an absolutely great example of social impact investing.

JP: Indeed, Nat. UniSuper's invested pretty close to $100 million to buy 49% of the equity in a world-class, purpose-built facility that specialises in cancer research, education and treatment. I was actually there a couple of weeks ago on a tour where the opening is scheduled for the end of this month, and I must say it really is a magnificent structure. Many of our academic members will be delighted to know that it will house over 900 researchers.

Getting back to your point on impact investing, the simple definition of this is just investing with the primary purpose of social benefit. And you hear more and more about superannuation funds getting involved in this type of investing. And I will caution here because we can't lose sight of the fact that we are managing people's life savings. Superannuation is deferred remuneration and as a fiduciary we have a responsibility to operate in our members' best financial interests. So that is a hurdle that we always have to meet when we're considering any investment. Well, I can't think of a better example of social investing than the VCCC. It ticks all the boxes—it meets our members' financial interests, and also does undeniable social good. We would love to do more of these projects, but they're pretty hard to come by.

NE: Fantastic. Thanks, John. Your insights are wonderful as always.

We hope you found these insights informative. If you'd like to know more information about our investments, please see **unisuper.com.au**, and if you have further questions or comments, please feel free to email us at **superinformed@unisuper.com.au**.

And don't forget to check out our current investment market update, which gives you a bit of insight into our involvement into the Victorian Comprehensive Cancer Centre here in Melbourne.

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