ALL ABOUT ASSET CLASSES

TEAM SUPER
TRANSPORT, ENERGY AND MINING

An asset class is the building block of any investment. Understanding asset classes will help you determine how best to invest your money.

Asset class categories

Asset classes are grouped into two main categories, defensive and growth. Alternative assets may contain investments with characteristics of both categories.

Asset class categories			
	Defensive assets	**Growth assets**	**Alternative assets**
Role in investing	Defend from losses	Grow your investment	Provide returns with lower correlation to share markets
Asset classes included	Cash, Bonds	Infrastructure, Property and Shares	Hedge funds, high-yield bonds and private equity
Asset category risk	Lower degree of price fluctuation over short term	Higher degree of price fluctuation over short term	Have risk and return characteristics of both growth and defensive assets, depending on individual investment*
Asset category returns	Provide lower returns over long term	Provide potentially higher returns over long term	

* Team Super members can't invest in alternative assets directly, but can gain exposure by investing in the pre-mixed investment options. See the Product Disclosure Statement at teamsuper.com/pds for more details.

Three key investment terms

Risk: The potential that the return from an investment will not meet your expectations.

Return: The sum of the income earned by an investment plus the amount by which an investment may change over time, either positive or negative.

Volatility: The degree to which the actual investment return varies relative to its investment objective or other benchmark, either positive or negative.

Cash

What is cash?

Cash usually means notes and coins, but when talking about cash investments in super funds, we're referring to short term interest-bearing investments, such as bank bills, term deposits and cash management accounts.

When you invest in cash you effectively lend money to a company or government body and earn interest.

Risk and return

Cash is a defensive asset, as it's expected to maintain the value of the principal investment, but has relatively low returns.

Investment time frame

Cash is a short-term investment not suitable for investors who have more than three years to invest their super. As such, cash isn't generally appropriate for long term investors, but is useful as a source of emergency funds or to meet short term savings goals.

The best thing about cash

Cash is a very low risk investment.

Bonds

What are bonds?

Bonds, also referred to as 'fixed interest', are issued by companies and governments to raise debt finance. The bond issuer promises to make regular interest payments and repay the principal of the bond by a certain date.

The value of bonds changes depending on interest rate expectations, inflation expectations and the financial health of the bond issuer, amongst other factors, providing potential for capital growth. When interest rate expectations rise, bond prices tend to fall, and vice versa.

Risk and return

Historically, bonds provide higher returns and are more volatile than cash, but have lower returns and are less volatile than property and shares.

The level of risk and return is closely linked to the issuer's financial health. For instance, highly rated government bonds, which are unlikely to default, pay lower returns than company bonds that have higher risk.

Investment time frame

Bonds are generally appropriate for short to medium term investments of one to five years.

The best thing about bonds

Bonds issued by governments and companies with high credit ratings can be a good way to offset the risk of investing in growth assets, as prices tend to move in opposite directions.

Property

What is property?

Property invests in listed and unlisted property vehicles which own industrial, office, retail and other real estate assets in Australia and overseas.

Property provides returns through both rental income and capital growth and allows investors to diversify a growth asset portfolio. Super funds tend to invest in property, such as office blocks, warehouses, shopping centres and factories.

Risk and return

Property is a growth asset that generally provides higher long term returns.

Investment time frame

Property is a long term investment of five or more years.

The best thing about property

Property can provide returns through both rental income and capital growth, allowing investors to diversify a growth asset portfolio.

Shares

What are shares?

Shares represent ownership in a company, giving you the right to share in the company's future financial performance—whether good or bad.

Investors can purchase both Australian and international shares. They are often regarded as separate asset classes because of their different risk and return characteristics.

International shares can help diversify a portfolio when included with Australian shares. This is because international shares may experience ups and downs at different times and provide access to different markets and a wider range of industries than can be gained by investing solely in Australian shares.

Risk and return

Shares have historically delivered high returns over the long term. That's why many long term investors make shares the biggest portion of their portfolios. However, shares can be very volatile in the short term.

Investment time frame

Shares are appropriate for long term investments of five or more years.

The best thing about shares

Shares can provide returns through both dividend income and capital growth and have generally been one of the best performing asset class over the long term.

The return from the International Shares investment option is affected by movements in the value of international currencies. Some of this foreign currency exposure may be hedged by The Fund. A rise in value of the Australian dollar is likely to have a negative impact on performance, while a fall in value is likely to have a positive impact on performance.

At times we may hold a small part of this investment option in cash. This is a standard investment administration process to:

- set aside money to invest with our managers
- manage cash outflows, such as benefit payments, without having to cash in an investment.

Alternative assets

What are alternative assets?

May include investments in:

- **Hedge funds:** This is where investment managers attempt to produce targeted returns or absolute returns, regardless of underlying financial market trends.
- **Higher yielding debt:** Includes high yield bonds, which are corporate bonds with relatively low credit ratings and therefore higher expected risk and return, emerging market debt, which are bonds issued by governments and companies from emerging economies and private debt, which is not listed on an exchange.
- **Private equity:** Shares in companies not publicly listed on a stock exchange.

Risk and return

Alternative assets contain characteristics of both growth and defensive assets. This is because different alternative investment managers use varying investment strategies and target different levels of risk.

The best thing about alternative assets

When included in a diversified portfolio, alternative assets reduce volatility and are an additional source of returns that don't necessarily follow the pattern of traditional asset classes.

Infrastructure

What is infrastructure?

Infrastructure invests in listed and unlisted funds that own essential public assets such as transport links including toll roads, rail networks and airports; it also invest in power generation and distribution, water facilities, telecommunications, data centres and social infrastructure.

Infrastructure assets are intended to deliver secure cash flows, which may be supported by monopolistic and/or regulated contracts; they also offers the potential to grow income and asset values through asset development. Infrastructure investing allows investors to diversify a growth asset portfolio.

Risk and return

Infrastructure is a growth asset that generally provides higher long-term returns.

Investment time frame

Infrastructure is a long term investment of five or more years.

The best thing about infrastructure

Infrastructure can provide returns through both income and capital growth, allowing investors to diversify a growth asset portfolio.

Using asset classes to manage risk

Diversifying across multiple asset classes

Investors often make the mistake of investing in last year's best performing asset class, but this can backfire.

Last year's winner can often be next year's loser. That's why it's important to diversify your investments. This means not putting all your eggs in one basket, but spreading your investment across different asset classes.

Diversification works because positive returns of some investments make up for negative returns of others. How much you invest in each asset class depends on your investment time frame, risk tolerance and investment goal.

Invest for the appropriate time frame

Another way of managing risk is by investing for the appropriate time frame.

Markets move through cycles – from excess to decline. The volatility of growth assets underscores the need to invest for the long term to ride out these ups and downs.

Which asset classes should you invest in?

Get in touch

Contact Team Super on 13 64 63 to speak with a representative today. If you are requiring personal financial advice, one of our team members can put you in touch with a financial adviser.

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