



NAB Super Insights Report 2023

11th biennial edition

This 2023 report is the 11th in our biennial series and continues to be the only survey to comprehensively examine currency hedging techniques in Australia. The report summarises survey findings from 41 Australian Superannuation Funds, which together account for A\$2.04 trillion of assets under management. This study provides insights on asset allocation trends, how Funds manage currency risk, the impact of regulatory change and navigating a path to net zero.

Considering the natural increase in Fund AUM each year and recent mergers, it is revealing to show that the survey covers close to 85% of industry AUM, according to Australian Prudential Regulation Authority (APRA) data excluding Self-Managed Super Funds (SMSFs). Total superannuation assets from APRA regulated Funds now totals \$2.45 trillion as of 30 June 2023, an 8.5% increase in the past two years.

Since the 2021 survey, market conditions both internationally and locally have been particularly challenging. The backdrop includes inflation rates not seen since the late 1970s and early 1980s, the rapid reversal of Covid-era central bank policy settings and rising global bond yields, together with increased global recession risk and heightened geopolitical concerns. All have taken a toll on risk sentiment and related asset price volatility at various times since the previous survey.

The report's objective is to contribute to the superannuation industry by providing detailed analysis and insights on both recent and future asset allocation trends, currency decisions and implementation, all of which can affect member returns. The NAB team thanks those who took part in our survey – without your time, attention and commitment this report would simply not be possible. We look forward to working further together for Australia's future.

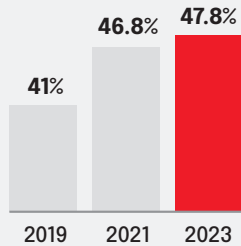
“Total superannuation assets from APRA regulated Funds now totals \$2.45 trillion as of 30 June 2023, an 8.5% increase in the past two years.”

This year's report provides detailed insights into asset allocation, currency decisions and implementation as well as navigating the path to net zero.

Highlights

Internationalisation of investment portfolios has continued

- In 2023, Superannuation Funds hold **47.8%** of their assets offshore.
- Consistent with the trend observed in 2021, Superannuation Funds on average have **increased** the percentage of their investment portfolios in international assets.



Large Funds international share approaching **50%** and set to increase further

- Large Funds have continued to spearhead allocations to international assets.
- This speaks to the ongoing challenge for Large Funds in deploying incoming capital to the domestic market as readily as smaller Funds **without amplifying concentration risk** as they seek diversification and attractive risk adjusted returns.

YFYS Performance test plays an important role in how Funds are investing

The YFYS Performance test is having a significant influence on setting and implementing Funds Strategic Asset Allocation (SAA)

- Funds are considering absolute investment risk, relative peer performance risk and Your Future Your Super (YFYS) basis risk when setting their **SAA**.
- Increased YFYS benchmark sensitivity is driving allocation to asset classes that are **readily benchmarked** according to many respondents.



Currency hedge ratios remain at near historical lows

- Superannuation Funds are hedging **less of their international equity exposures** than in 2021.
- This is perhaps surprising as the AUD/USD exchange rate had been trading in the lower quartile of its historical (post-float) range in the six months preceding the survey.



Strong preference for unlisted over listed international markets

- In the next 2 years Funds indicated they **expect to increase their relative exposure** to:
 - Unlisted Intl Infrastructure
 - International Property, and
 - Private Credit
- While there has been increasing scrutiny over illiquidity and valuations of unlisted assets, Funds still view these asset classes as attractive for delivering **long term returns** for members.



Funds committed to navigating the challenges of investing alongside a net zero strategy

- Approximately half of Funds in this year's survey have formal targets for achieving net zero, with another quarter currently considering.
- A higher proportion of small Funds are **yet to implement a net zero strategy** as they navigate the regulatory reporting and resourcing requirements associated with responsible investing.

Request the full survey findings for the 11th biennial survey report by emailing: NAB.FX.Survey@nab.com.au

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