



To help members save for their retirement while they are working, superannuation funds invest the contributions they receive in different types of 'assets'.

What do superannuation funds invest in?

There are five main types of investments or 'asset classes' in which superannuation funds invest. They are:

- Shares (often referred to as 'equities')
- Infrastructure (services or assets required for the efficient functioning of communities such as roads, bridges, water utilities, etc.)
- Property
- Fixed interest (bonds)
- Cash.

AustralianSuper combines these asset classes in different proportions to create the 16 different investment options it offers to AustralianSuper members.

The Balanced Option is AustralianSuper's default investment option, in which most AustralianSuper members' accounts are invested. If you don't make an investment choice your account will be invested in the Balanced Option.

The Balanced Option contains a combination of different asset classes, and the combination has been designed to suit the risk tolerance and savings needs of the majority of members. AustralianSuper's other investment options contain either different proportions of the different asset classes or only one asset class.

Some asset classes are available as both listed and unlisted investments

Some asset classes are available in both 'listed' and 'unlisted' forms. For example, assets such as shares, property and infrastructure can be either listed or unlisted.

What is a listed asset?

Listed assets are bought and sold every day on a stock exchange.

They are priced (valued) each day when they are bought and sold, and their value is determined by their inherent characteristics and by the outlook for the economy generally.

Listed assets' prices can also be influenced by the outlook for a particular market sector (e.g. the mining or building industries), estimates of the future earnings a company will achieve and recent developments within a company or market sector.

As attitudes towards particular sectors and the overall sharemarket can change quickly, listed assets tend to perform very differently to their unlisted counterparts.

What is an unlisted asset?

Unlisted assets can include:

- property (usually large office buildings and shopping centres)
- infrastructure (essential services such as roads, power grids, utilities and airports), and
- shares (unlisted shares are referred to as 'private equity' and are investments in start-up or existing companies).





Instead of its price being determined by daily buying and selling on the stock exchange like a listed asset, the price of an unlisted asset is established by estimating its capital value, which means the basic worth of the property, company or infrastructure asset.

Although unlisted assets are often lumped together as a group, there are significant differences between unlisted property, infrastructure and private equity. For this reason, AustralianSuper invests in all three unlisted asset classes to gain the various benefits each type of asset offers.

Why invest in unlisted assets?

Unlisted assets tend to be long-term investments and they are usually substantial assets such as office buildings, airports and energy grids (see page 3 for a list of AustralianSuper's 10 largest unlisted investments).

Unlisted assets offer different benefits and investment returns to listed assets such as shares, so AustralianSuper blends a carefully considered mix of listed and unlisted assets together to achieve competitive long-term returns for members.

What are the differences between listed and unlisted assets?

While listed and unlisted investments are often based on the same 'family' of assets, their listed or unlisted status make a big difference to them as investments.

This means the price (or value) and investment returns of listed and unlisted assets do not necessarily move in tandem.

Key point

Unlisted assets are long-term investments in substantial services or properties. Many of them play a vital role in the growth of the Australian economy.

What are the benefits of unlisted investments?

While unlisted assets can fall in value in some economic conditions, they provide a number of valuable benefits to a superannuation fund. These include:

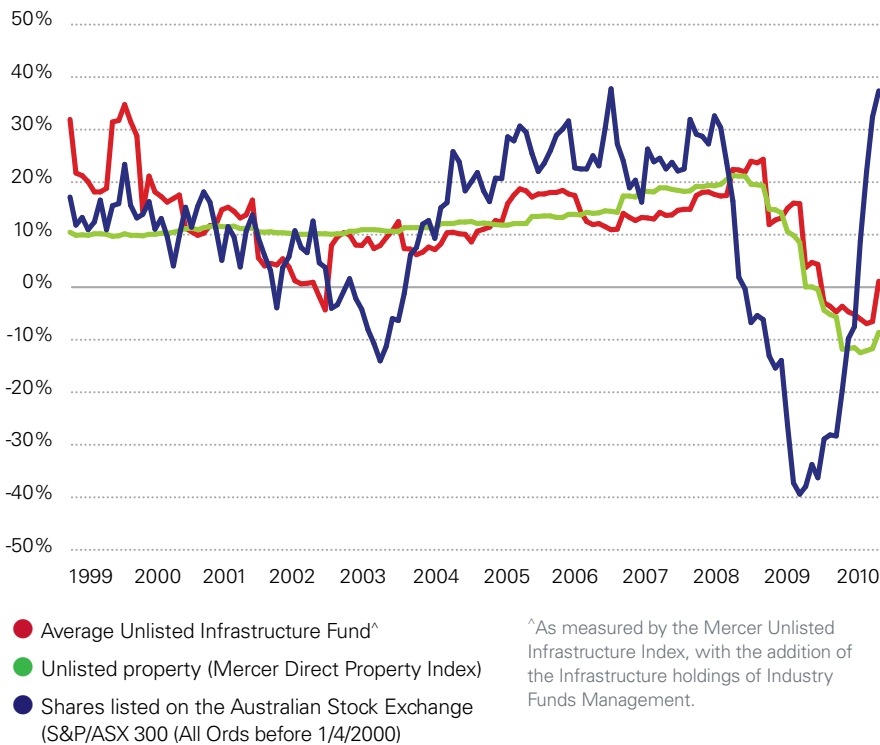
<p>Diversification (spreading the risk)</p>	<p>Listed and unlisted assets tend to achieve different investment returns, so investing in both helps balance out the ups and downs. It also helps to reduce the chance of a low or negative return if one of the assets does not reach its expected level of return.</p> <p>Investing in listed and unlisted assets spreads the risks of investing – much like the idea of not putting all your eggs in one basket.</p>
<p>Relatively steady income streams</p>	<p>Unlisted property and infrastructure tend to provide reliable income streams (e.g. through rents from office tenants locked in over a fixed term contract period, or returns from a power station or toll road with a long-term government agreement).</p>
<p>Better risk-adjusted return (good returns considering the level of risk taken)</p>	<p>To achieve high investment returns, it is usually necessary to take more risks and some investments (such as shares) are seen as being more risky. Unlisted assets usually achieve good returns considering the level of risk taken to achieve those returns.</p>

Key differences between listed and unlisted assets

Listed assets	Unlisted assets
Priced daily by the sharemarket as they are bought and sold	Price estimated quarterly, six-monthly or annually by professional valuers
Price can be influenced by attitudes towards the sharemarket, future developments for the particular business and predicted outlook for the industry the business is operating within	Price based on the estimated value of the asset itself and recent sale transactions of similar assets
Prices tend to go up and down more often	Prices tend to be more stable
Often have complex investment and management structures	Simpler investment and management structures
Easy and quick to buy/sell (more liquid)	Slower to buy/sell (less liquid)

A bumpier ride from listed assets than from unlisted assets

This chart shows the investment returns from listed and unlisted assets. Returns from shares on the Australian sharemarket have been more volatile (have had more dramatic ups and downs) than those from unlisted assets such as property and infrastructure.



How are the values of unlisted assets determined?

Unlike listed assets which are priced daily, based on the last sale transacted, unlisted investments are priced regularly using an estimate of the 'fair value' of the basic asset (e.g. a large office building or shopping centre).

The fair value (or fair price) is an estimate of the amount for which the asset could currently be bought or sold on the open market when both the seller and buyer are willing but not desperate.

Generally unlisted assets are priced (valued) every quarter, although for some assets this is only done annually. This means the value of unlisted assets tends to move more steadily and smoothly, rather than bounce around like the price of listed assets.

AustralianSuper's unlisted assets are valued regularly, with 87% valued every quarter, 8% valued every six months and 5% valued annually. When new prices are received by the Fund, they are immediately reflected in the daily crediting rates.

Who values the unlisted assets?

Estimating the current price of unlisted assets is usually done by professional valuers who use the guidelines set by bodies such as the Australian Property Institute and the Australian Private Equity and Venture Capital Association.

Where AustralianSuper invests using a specialist investment fund, the valuation is usually done by the fund's manager, using a panel of independent valuers who are rotated on a regular basis.

Why do regular valuations matter?

Regular valuations of unlisted assets are important as they ensure the assets a superannuation fund holds and reports on reflect the current prices the assets would sell for. Without regular valuations, a fund may be listing assets in its accounts at incorrect values.

Regular valuations mean members are receiving the correct investment return for the investment option they have selected and it also ensures all members are treated fairly and equitably.

What are AustralianSuper's unlisted assets?

AustralianSuper mainly invests in unlisted assets through specialist investment funds. In particular, Industry Superannuation Property Trust for property investments and Industry Funds Management for infrastructure investments. In a few cases, AustralianSuper also co-invests directly in unlisted property and infrastructure assets with other superannuation funds and large institutions.

The amount of unlisted assets held by AustralianSuper varies over time, as determined by the Fund's trustee board, but some of the Fund's major unlisted assets are outlined in the table below.

AustralianSuper's top 10 unlisted assets as at December 2009

Investment	Main Business Activity
1. Pacific Hydro	Renewable energy in Australia, Chile and Brazil
2. North American Energy Alliance	Gas fired energy generation
3. Anglian Water Group	Water utility based in the UK
4. Melbourne Airport	Melbourne airport operator
5. Colonial Pipeline Company	US oil pipeline
6. Brisbane Airport	Brisbane airport operator
7. Thames Water	Water utility based in the UK
8. Arqiva Limited	UK communications infrastructure company
9. Central Plaza One	Brisbane office property
10. Perth Airport	Perth airport operator

What is the regulator's view on unlisted assets?

The activities and investments of every superannuation fund are monitored by government regulatory agencies that ensure funds meet the requirements and guidelines set out for them in the law.

The prudential regulator for the superannuation industry is the Australian Prudential Regulation Authority (APRA) and it recognises the role played by unlisted assets in superannuation funds' investment portfolios. APRA has provided superannuation funds with guidelines on the practices they should follow in obtaining valuations on their unlisted assets, to help ensure transparency and equity for members.

How did unlisted assets perform in the global financial crisis?

The prices of many listed assets such as shares and listed property trusts declined dramatically during the global financial crisis, then rose significantly in the second half of the 2009. While unlisted assets went through a devaluation cycle in 2009, the falls in value were nowhere near the levels seen in listed assets. Their long-term nature and steady income streams (e.g. rents from contracted tenants and daily road tolls) make unlisted assets attractive investments even in the current turbulent environment.

Which AustralianSuper investment options include unlisted assets?

The table below shows the recent proportions of each asset class in each of AustralianSuper's pre-mixed investment options. The unlisted asset classes are highlighted.

AustralianSuper asset allocations as at 31 December 2009

Asset Class	High Growth Option	Balanced Option	Sustainable Balanced Option	Conservative Balanced Option	Stable Option
Australian Shares	41.6%	36.4%	36.2%	28.7%	18.8%
International Shares	35.0%	23.2%	23.3%	21.0%	13.3%
Direct Property	5.7%	10.0%	9.9%	10.2%	7.1%
Private Equity	6.5%	3.8%	3.8%	0.0%	0.0%
Infrastructure	9.8%	13.1%	13.2%	12.1%	8.8%
Absolute Return Strategies	0.5%	0.9%	0.9%	5.3%	5.0%
Global Bonds	0.0%	9.6%	9.7%	17.6%	27.5%
Cash	0.9%	3.0%	3.1%	5.1%	19.6%

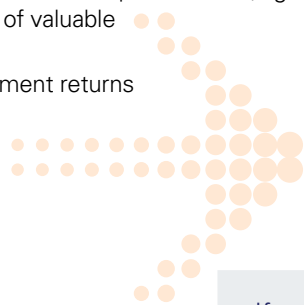
What is AustraliaSuper's experience?

Over the years, unlisted assets have proven to be solid investments for AustralianSuper. They are also a good fit with the other assets held by the Fund to meet its objective of helping members to save for their retirement over an extended period.

Unlisted assets provide AustralianSuper members with a number of valuable benefits, including:

- relatively stable investment returns over the long-term;

- an alternative source of return to AustralianSuper's listed assets;
- the potential for good returns, particularly as their level of risk is lower than shares; and
- investment in solid, substantial assets (e.g. toll roads, electricity generation).



If you are interested in learning more about unlisted assets, a more detailed AustralianSuper factsheet on the topic is available on request.

Call AustralianSuper on 1300 300 273 or email email@australiansuper.com

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