

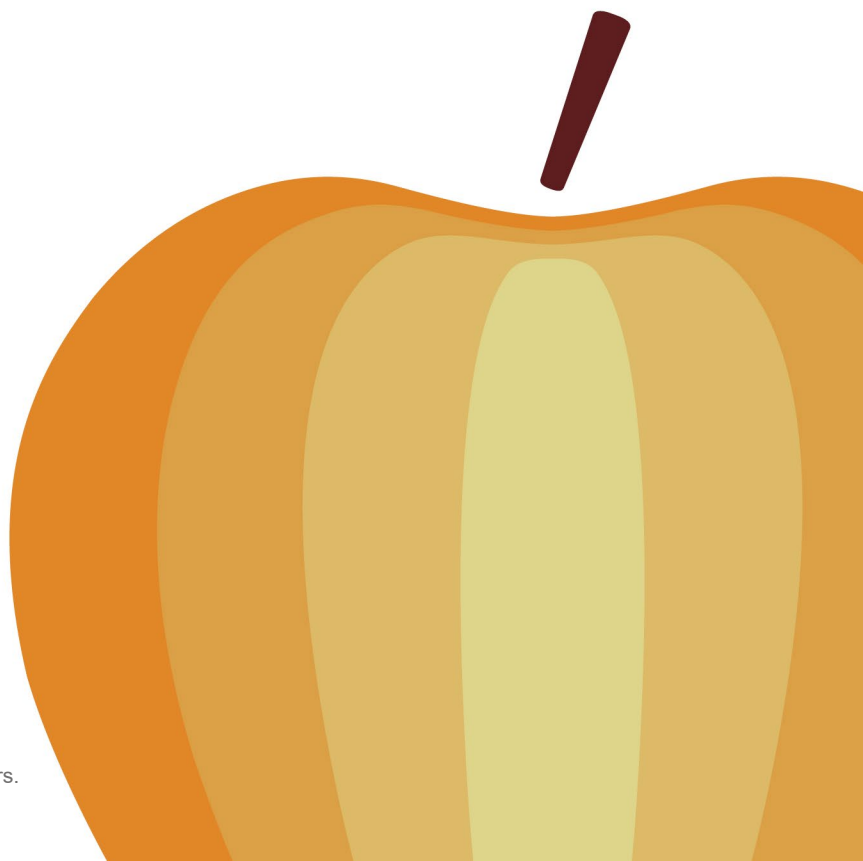
Chant West

Confidential

AustralianSuper

Super Investment Rating

January 2025





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1. Super Investment Ratings

1.1 Overall rating

We have awarded AustralianSuper our '5 Apples' highest quality overall rating. This refers to AustralianSuper's overall ability to construct quality investment options for its members.



This report is dated January 2025 and, to the best of our knowledge, unless otherwise stated, the information in this report is accurate at that date.

1.2 Individual investment option ratings

Table 1 shows our rating of each investment option considered in this report. These ratings may differ from the overall rating as they take into account the specific characteristics of each option.

Table 1: AustralianSuper Options Rated

Diversified	Rating (Apples)	Previous Rating (Apples)
Stable	Highly Recommended	Highly Recommended
Conservative Balanced	Highly Recommended	Highly Recommended
Balanced	Highly Recommended	Highly Recommended
High Growth	Highly Recommended	Highly Recommended
Single Sector		
Australian Shares	Recommended	Recommended
International Shares	Recommended	Recommended
Diversified Fixed Interest	Recommended	Recommended
Cash	Recommended	Recommended

For further historical ratings information, please contact Chant West at research@chantwest.com.au.

2. Responsible Investment Classifications

The Zenith group's Responsible Investment (RI) classifications are determined by taking into consideration a broad range of factors, with the output of our analysis summarised in our product assessment reports and Super Investment Rating Reports. The aim of the RI categorisations is to create a uniform framework where investors can broadly understand how superannuation funds and investment managers address RI themes and issues in their investment process. Consistent with this, Chant West-rated investment options are assigned a Responsible Investment Classification.

Table 2 shows our Responsible Investment Classification for each option rated. In our classification system, rated investment options are assigned one of the following classifications:

- Traditional
- Aware
- Integrated
- Thematic
- Impact

Section 7 summarises AustralianSuper's approach to responsible investment.

Table 2: Responsible Investment (RI) Classifications

Diversified	RI Classification
Stable	Integrated
Conservative Balanced	Integrated
Balanced	Integrated
High Growth	Integrated
Single Sector	
Australian Shares	Integrated
International Shares	Integrated
Diversified Fixed Interest	Aware
Cash	Traditional

3. Summary

3.1 Business overview

AustralianSuper is a profit-for-members, multi-industry fund. It is the largest superannuation fund in Australia with over 3.2 million members and assets of about \$343 billion (at 30 June 2024). AustralianSuper received \$15.8 billion in net contributions over the 2023/24 financial year.

The Trustee Board of AustralianSuper, which is chaired by Dr Don Russell, comprises 12 directors – two independent directors, five employer representatives nominated by the Ai Group and five member representatives nominated mainly by the ACTU.

Paul Schroder heads a team of about 1,910, of which, about 1,420 are based in Melbourne, about 330 in other Australian offices, about 120 in London, 40 in the US and 2 in China. Mark Delaney, as Chief Investment Officer, leads the fund's investment team of about 370 investment staff. The expansion of the investment team over the coming years will be focussed on its global operations and internal management capability. The team is supported by the Fund Services team headed by Peter Curtis.

Frontier and JANA Investment Advisers (JANA) are the fund's principal investment consultants. Both provide advice on asset allocation and strategy, with Frontier working closely with the internal investment team and JANA with the Investment Committee. Frontier and JANA are both leading Australian asset consulting firms. AustralianSuper may also leverage the expertise of specialist consultants and its general partners to source investment opportunities in unlisted asset classes.

Frontier is owned by four industry funds (AustralianSuper, Cbus, HESTA and First Super). It has about 85 staff (60 investment professionals) located across Melbourne, Sydney and Adelaide. It advises on assets of more than \$700 billion. Chris Trevillyan is the key relationship consultant for AustralianSuper. JANA is wholly owned by senior staff. It has about 145 staff (110 investment professionals) located in Melbourne and Sydney, and advises on assets of around \$1.6 trillion. Jeremy Willmot is the key relationship consultant for AustralianSuper.

AustralianSuper has a well-defined investment decision-making process that involves considerable interaction between the Trustee Board, Investment Committee, internal investment team and its two principal investment consultants.

3.2 Investment beliefs

AustralianSuper has a 'one portfolio' approach, seeking to leverage its internal and external resources and capabilities to maximise investment outcomes for its members across each investment option. It has a long-term investment focus. It believes in maintaining broadly diversified portfolios across listed and unlisted assets, asset classes and strategies, managers and manager styles. It believes in active asset allocation and active management within asset classes where there is persistent value added. It sets strategic asset allocation targets which are used as a guide for allocating cash flows to sectors with the best expected returns.

Over the past ten years, AustralianSuper has developed and grown its internal management capability – initially in Australian equities, property and infrastructure, followed by cash, international equities, credit and global fixed interest. In total, AustralianSuper managed about 57% of its assets directly at June 2024. However, AustralianSuper will continue to use external managers where it believes they can add greater value than it could produce internally. Internalisation will continue to be a key lever to fund more expensive higher alpha strategies and AustralianSuper's global build, with internally managed assets potentially increasing to about 75% of total assets by 2035.

3.3 Research

AustralianSuper primarily sources its external fund manager research from its investment team. It supplements its own research with additional strategic advice and research on specific sectors from Frontier and JANA. This includes identifying new investment opportunities and asset sectors, researching incumbent and potential managers and undertaking other assignments as directed by Mark Delaney. JANA and Frontier also provide input to strategic and active asset allocation decisions, and present to the Investment Committee on a regular basis. JANA also reviews AustralianSuper's internal investment management capabilities for the Investment Committee. In addition, AustralianSuper may leverage the expertise of specialist consultants and its general partners to source or obtain additional views on investment opportunities in unlisted markets – infrastructure, property, private equity and private credit. In mid-risk assets (property, infrastructure and credit), AustralianSuper is increasingly taking a lead role in sourcing investment opportunities. The expansion of AustralianSuper's investment capability over the next 5 to 10 years will be focussed on its global build across both unlisted and listed asset classes. This is to enable better access to investment opportunities, key partners and a global talent pool. Wherever possible, AustralianSuper will manage international assets internationally, and Australian assets in Australia.

AustralianSuper draws its asset allocation and macroeconomic research from several sources. The Asset Allocation team, headed by Alistair Barker, is responsible for AustralianSuper's macroeconomic research and portfolio management activities relating to all diversified investment options including its cyclical Portfolio Mix process, which captures AustralianSuper's views on active allocation positioning. The team works closely with its internal Advisory Groups, and its research is strengthened by the depth of its relationships with key global and domestic research houses, government bodies, consultants, economists and investment managers.

3.4 Strengths

AustralianSuper's main strengths are listed below along with some key enhancements over the past year.

- It has a large and high-quality investment team of about 370 investment professionals with significant depth and strong succession planning. That is up from 335 staff a year ago with growth across all teams but particularly strong growth at the senior level and across the mid-risk team and global offices. AustralianSuper continues to attract high quality talent as it expands its global operations and expects to grow the international offices from about 80 staff to about 300 by 2030.
- Two key London-based senior staff who joined AustralianSuper in 2023, Mark Hargraves (Head of International Equities & Private Equity) and John Normand (Head of Investment Strategy), have already made significant contributions to portfolio construction and investment strategy.
- It has significant scale with about \$343 billion in assets under management which enables it to acquire large assets, particularly in property and infrastructure, and seek co-underwriting and co-investment opportunities in private equity, while lowering investment costs.
- It has built up a strong internal management capability and currently manages about 57% of its assets directly – across equities, property, infrastructure, credit, fixed interest and cash. AustralianSuper's internalisation program has been a key driver of the reduction in investment fees and costs for the Balanced (MySuper) option from 0.67% in FY17 to 0.52% in FY24, excluding transaction costs.
- It has a global presence with offices in London, Beijing and New York. It believes the advantages of having a global presence include being closer to deal origination, better asset management, stronger research of companies, superior execution and better access to the right investment professionals. As mentioned above, the expansion of the investment team over the coming years will be focussed on its global operations and internal management capability across both unlisted and listed markets.
- It continues to evolve how it constructs portfolios and how it accesses and researches investment opportunities. As an example, as part of its mid-risk portfolio strategy, in October 2023 it brought the real estate and infrastructure teams together to form a broader real assets team. Central to the strategy is a focus on thematic/sectors and different mid-risk assets competing for capital.
- Further evidence of AustralianSuper seeking continuous improvement is the redesigned international equities strategy led by Mark Hargraves. Over the past year, AustralianSuper has rationalised both internal and externally managed strategies to focus more on higher conviction ideas with specific roles in the portfolio going forward. The team structure has been simplified to bring together key functions of portfolio construction, strategy, analytics and manager research under the one umbrella. AustralianSuper is also uplifting its internal capability as it seeks to build out additional high-conviction internal strategies, and significant progress has been made on this front with four recent senior appointments in London.
- It offers high quality investment portfolios that are well-diversified and have benefitted from a strategic commitment to, and significant experience in, investing in unlisted assets (private equity and infrastructure). It has been successful in continuing to further diversify its unlisted asset portfolios in recent years, investing heavily in digital infrastructure, industrial property and mixed-use property. However, we note that AustralianSuper's property strategy hasn't worked as well as hoped mainly due to its overweight to retail assets, underweight to the industrial sector and more recently, challenges with some of its development assets (this is discussed further in the 'Issues to consider' section).
- It has a strong investment governance framework with an Investment Committee that has a deep understanding of investments, with appropriate delegations to the investment team which are periodically reviewed for appropriateness and modified as the Fund and the investment team's expertise continues to grow globally. The framework enables efficient and timely investment decisions and effective oversight of the delegated authority.

- AustralianSuper also has sound governance around internal strategies which are monitored closely on an ongoing basis through regular reporting and meetings. JANA, in its role as adviser to the Investment Committee, provides independent initial and ongoing review of internal strategies. There has been evidence of AustralianSuper terminating internal strategies where it hasn't achieved the desired outcomes or where it no longer fits with AustralianSuper's go-forward strategy.
- AustralianSuper has a dedicated Valuation team that is independent from the investment team. It acts as the central point of contact with independent external valuers and is responsible for providing oversight of the valuation process, including inputs required from the investment team, and makes valuation recommendations to the Valuation Committee.
- Responsible Investment is well-integrated into its core portfolios and it has a strong and well-resourced ESG & Stewardship team of 15 led by Andrew Gray.
- It has strong net cash flows which is a key enabler to invest significant amounts in unlisted assets. Over the 2023/24 financial year, AustralianSuper received a total of \$15.8 billion in net contributions.
- It has delivered strong long-term investment performance for all diversified investment options. However, we do note that peer-relative performance has been somewhat disappointing over the past three years.
- It has a strong focus on risk management. In addition to investing in its people, AustralianSuper has also invested significantly in systems in recent years and remains committed to further enhancing them. It is currently in the process of uplifting its liquidity management and risk reporting systems. Additionally, it recently appointed its first Chief Liquidity Officer, Chandu Bhindi.
- To supplement its own deep investment capability, it continues to access insights from two of Australia's leading asset consulting firms – Frontier and JANA. Additionally, it may leverage the expertise of specialist consultants and its general partners to source investment opportunities in unlisted asset classes, and it continues to broaden its relationships.

3.5 Issues to consider

Issues that investors may need to consider include:

- While AustralianSuper's global expansion provides the benefits described above, preventing silos from developing and maintaining culture may be more challenging. To maintain connectivity and culture, the members of the Senior Leadership team (Mark Delaney and his direct reports) remain committed to spending a significant proportion of their time in its overseas offices. Additionally, some key senior Australian investment staff will be based overseas for periods of time and key senior overseas-based investment staff regularly travel to Australia.
- AustralianSuper's internally managed concentrated Australian large cap equities strategy, which has performed strongly, may approach its capacity limits within the next two years. Chant West will continue to monitor any developments regarding the strategy's risk and alpha targets.
- While AustralianSuper has made solid progress in recent years to reshape its unlisted property portfolio, its legacy retail and US office exposures have continued to be a drag on performance. Additionally, reshaping exposures for large unlisted portfolios can take time. However, through AustralianSuper's strong net cash flows and a slowdown of allocations to the asset class, the actual exposure to unlisted property in AustralianSuper's Balanced option has now been reduced to 4%. Given markdowns in values of some of its large legacy holdings in recent years, these assets are expected to be much less of a drag on performance going forward. However, there are also headwinds with some of the development assets due to delays and increased costs of construction.
- Peer-relative performance in recent years (one and three years) has been disappointing. This can be attributed to a combination of factors including an underweight position to equities through much of the 2023 calendar year when equities surprised on the upside, the underperformance of the property portfolio, underperformance of its international equities portfolio and the loss from its private equity investment in US software company, Pluralsight. We note that AustralianSuper has taken steps to address investment performance. This included gradually shifting the listed equities allocation of its Balanced option to 58% by June 2024, the appointment of Mark Hargraves (Head of International Equities & Private Equity) who has redesigned the international equities strategy, and revisions to the sizing of private equity co-underwrites. As mentioned above, some progress has been made in reshaping the property portfolio.

4. Manager & Asset Research

AustralianSuper primarily sources its fund manager research from its internal investment team and manages about 57% of assets directly. It supplements its own research with additional strategic advice and research on specific sectors from Frontier and JANA. This includes identifying new investment opportunities and asset sectors, researching incumbent and potential managers, and undertaking other assignments as directed by Mark Delaney. JANA and Frontier also provide input to strategic and active asset allocation decisions, and present to the Investment Committee on a regular basis. In addition, AustralianSuper may leverage the expertise of specialist consultants and its general partners to source or obtain additional views on investment opportunities in unlisted markets – infrastructure, property, private equity and private credit. In mid-risk assets (property, infrastructure and credit), AustralianSuper is increasingly taking a lead role in sourcing investment opportunities. AustralianSuper's longer-term strategy is to have one-third of its investment team based overseas.

4.1 Resources and Coverage

The internal investment team, headed by Mark Delaney, comprises about 370 investment staff. Table 3 lists the senior internal investment staff (Investments Senior Leadership and some of their key direct reports). The figures in brackets represent the size of each team. Damian Moloney as Deputy CIO heads the CIO Office. Its role is to:

- plan, set direction, support and oversee the build of the global investment platform and capability; and
- provide portfolio level strategy, risk and performance oversight and advice.

Justine O'Connell, as Head of Portfolio Strategy reports to Damian. Justine is responsible for Balanced option strategy, oversight of investment portfolio strategy relating to all investment options, and performance oversight and research. Portfolio Strategy brings together parts of the Portfolio Construction and Portfolio Performance & Analytics teams under the one leadership structure.

Jason Peasley, as Head of Mid-Risk Portfolios, has overall responsibility for real assets and mid-risk credit. In October 2023, the mid-risk team brought the real estate and infrastructure teams together to form a broader real assets team, led by the Head of Global Real Assets (currently vacant after the departure of Nik Kemp) who reports to Jason Peasley. The Global Real Assets team will comprise five 'Heads of' reporting directly to the Head of Global Real Assets – that includes people leaders for Australia, Europe and Americas as well as 'Heads of' for the Asset Management and higher alpha Strategic Opportunities functions. Sector leads across digital, energy transition, estates, toll roads and transport logistics will be responsible for sharing knowledge and building consistent investment practices across the team.

Table 3: Key senior investment staff

Staff	Asset sector / role	Experience
Mark Delaney	Chief Investment Officer	42 / 24
CIO Office (59)		
Damian Moloney	Deputy CIO	36 / 6
Justine O'Connell	Head of Portfolio Strategy	23 / 6
Carl Astorri	Head of Investments, Europe	29 / 10
Andrew Gray	Head of ESG & Stewardship	33 / 13
Asset Allocation (30)		
Alistair Barker	Head of Asset Allocation	25 / 16
Emma Halley	Head of Portfolio Construction	15 / 1
Vacant	Head of Macroeconomic Research	-
Amber Rabinov	Head of Thematic Research	19 / 4
John Normand	Head of Investment Strategy	29 / 1

Note

Experience: years in the investment industry / years with AustralianSuper

Table 3: Key senior investment staff (cont.)

Staff	Asset sector / role	Experience
Australian Equities (22)		
Shaun Manuell	Head of Australian Equities	31 / 11
International Equities & Private Equity (68)		
Mark Hargraves	Head of International Equities & Private Equity	29 / 1
Ruairidh Stewart	Head of Internal International Equities	28 / 6
Terry Charalambous	Head of Private Equity	26 / 18
Zia Rahman	Head of Insights, Strategy & Implementation, International Equities	27 / 11
Mid-Risk Portfolios (100)		
Jason Peasley	Head of Mid-Risk Portfolios	31 / 13
TBC	Head of Global Real Assets	-
Nick Ward	Head of Private Credit	21 / 13
Roger Knott	Senior PM, Direct Investments	30 / 9
Jessica Melville	Head of Mid-Risk Portfolio Strategy & Research	17 / 3
David Dubrovsky	Head of Mid-Risk Portfolio Governance and Insights	19 / 5
Jane Park	Head of Mid-Risk Investment Capability	24 / 1
Fixed Income & Currency (34)		
Katie Dean	Head of Fixed Income & Currency	22 / 10
Mark Robertson	Head of Portfolio Construction & Strategy	27 / 1
Daniel Been	Head of Macro Currency & Emerging Markets	22 / 2
Sujay Shah	Head of Internal Government Portfolios	17 / 2
Damon Lau	Head of Quantitative & Derivative Strategies	24 / 9
Brad Gibson	Head of Macro Rates	31 / 1
Kris Tan	Head of Investment Capability	18 / 9
Liquidity & Implementation (56)		
Chandu Bhindi	Chief Liquidity Officer	30 / 1
Joris Hillmann	Head of Liquidity & Implementation, Europe	25 / 6

Note

Experience: years in the investment industry / years with AustralianSuper

Over the past ten years, AustralianSuper has developed and grown its internal management capability and now manages 57% of total assets directly (at June 2024). However, AustralianSuper will continue to use external managers where it believes they can add greater value than it could produce internally.

It first started managing assets directly in 2013 by establishing an internal Australian equities team headed by Shaun Manuell, which currently comprises 22 staff. This team now covers large cap stocks, small cap stocks and micro-cap stocks. Overall, the team managed assets of \$76.2 billion or 95% of the \$80.2 billion Australian equities portfolio at 30 June 2024. AustralianSuper's internal fundamental international equities team, headed by Ruairidh Stewart, comprises 14 staff, and began managing a fundamental strategy in November 2016, which has grown to \$16 billion. In addition, a systematic equities team, headed by Jonathan Tay, comprises seven staff and manages two international quantitative strategies – a quantitative value strategy (\$10.1 billion) and a quantitative core strategy (\$694 million). This team also manages an Australian Equities Enhanced Index strategy (\$1.2 billion). Overall (including derivatives-based strategies and completion portfolios), internally managed equities accounts for about 31% of the \$107.8 billion international equities portfolio.

AustralianSuper also directly manages the majority of its private credit exposure through a team led by Nick Ward (\$4 billion which accounts for about 65% of private credit). AustralianSuper also directly holds a meaningful portion of its unlisted infrastructure (\$23.7 billion which represents about 55% of the asset class) and unlisted property (\$6.6 billion which represents 53% of the asset class), including some large investments both domestically and overseas. AustralianSuper has also grown its private equity capability and now manages about \$4.6 billion directly (30% of the overall \$15 billion private equity).

AustralianSuper's internal fixed income programme, which is managed by the Fixed Income & Currency (FIC) team headed by Katie Dean, includes an investment grade sovereign fixed income portfolio (about \$13.4 billion), Australian High Grade Spread Portfolio (about \$11.7 billion) and direct investment grade credit portfolios (about \$377 million). Overall, internally managed equities accounts for about 55% of the \$47.5 billion fixed income portfolio. Over the past year, responsibility for internally managed cash transitioned from the FIC team to the Liquidity & Implementation team, which now manages \$14.2 billion which accounts for about 70% of the \$20 billion cash portfolio. The intention is have 100% of the cash portfolio internally managed by the first half of FY25.

4.2 Process

Manager and asset research is carried out by the internal investment team, which is supported, where necessary, by research provided by the external subject matter experts. Internal investment teams, which directly manage portfolios under specific mandates, carry out the majority of the fundamental and quantitative research in-house, complemented by a panel of external research providers.

Investments Senior Leadership or senior staff who have delegated authority are responsible for external manager appointment decisions based on recommendations from their respective teams, following the completion of investment and operational due diligence. The manager selection process typically starts with the internal investment team generating and reviewing a long list of candidates for manager searches, taking into consideration managers that AustralianSuper has existing relationship with, or have been tracking, and Frontier ratings (if applicable). The types of managers and portfolios that are considered can vary across asset classes. As an example, the criteria for international equity managers include concentrated mandates, high active share and capacity, simple and repeatable processes, a stable team and boutique ownership with reputable people.

The long list of 3-20 managers is then narrowed down to a short list through desktop analysis, where the factors considered include fee/capacity constraints, portfolio manager and/or reputational concerns, the range of alpha sources available to the manager, the quality and depth of the investment team and the historical track record. The output of this analysis is a short list of typically a maximum of 6 prospective candidates. Extensive due diligence is undertaken on these short-listed managers including onsite reviews. AustralianSuper also requests that the managers complete detailed operational due diligence and responsible investment questionnaires alongside additional data requests as required. A manager scorecard is completed based on the internal investment team's qualitative and quantitative analysis, and the preferred manager is selected. A detailed manager recommendation paper is prepared for approval from the relevant Investments Senior Leadership who holds significant delegation authority, in line with AustralianSuper's Investment Delegations Framework.

AustralianSuper has good connectivity across asset class teams with the assessment of some investment opportunities in one asset class incorporating insights from other asset class teams.

AustralianSuper has a rigorous performance assessment framework in place with both internal and external mandates monitored closely by AustralianSuper on an ongoing basis through regular reporting and meetings. JANA, in its role as adviser to the Investment Committee, provides independent initial and ongoing review of internal strategies with a deep-dive review conducted every three years.

For co-investment opportunities in unlisted asset sectors, where AustralianSuper invests alongside an external manager, AustralianSuper takes into consideration the due diligence undertaken by the relevant manager (general partner) but will also conduct its own analysis. In the case of co-underwrite opportunities, the AustralianSuper private equity team is involved earlier in the due diligence process and undertakes more in-depth analysis. For direct unlisted asset opportunities, AustralianSuper mainly relies on its own detailed due diligence, using external advisors as required. In the mid-risk asset space, AustralianSuper is now increasingly taking a lead role in sourcing investment opportunities.

See [Portfolio Management](#) for further details of the roles of the Investment Committee, the internal investment team, and the Advisory Groups.

5. Capital Markets Research

The Asset Allocation team, headed by Alistair Barker, is responsible for setting the strategic asset allocation (SAA) and active asset allocation for all of AustralianSuper's diversified investment options, and therefore undertakes the majority of the Fund's capital markets research. The four core functions of the Asset Allocation team include macroeconomic and thematic research, asset allocation strategy, portfolio construction and investment risk.

In the past year, the Asset Allocation team introduced a matrix operating model to better align the assignment of tasks and resourcing to the team's key value-add levers (macroeconomic cycle positioning, private markets and long-term and thematic), providing greater role clarity of specialist and researchers.

AustralianSuper adopts a total portfolio approach with the Portfolio Strategy and Asset Allocation teams working closely together, seeking to combine top-down asset allocation decisions with asset class construction and security selection decisions, so they are sized with the total portfolio outcome in mind.

The Asset Allocation team also works closely with internal Advisory Groups (described in Section 6.2) and asset class teams. The Asset Allocation team's research is strengthened by the depth of its relationships with key global and domestic research houses, government bodies, consultants, economists and investment managers. The team's macroeconomic research has evolved over recent years from primarily supporting the asset allocation process to increasingly supporting the investment process more broadly. This is in part due to the increasing internalisation of the investment process, which has been a strategic priority for AustralianSuper over the past ten years.

The Asset Allocation team adopts a medium-term view via the Medium-Term Portfolio Stance (MTPS), which reflects the key Balanced option positions that are intended to be held in 3 years' time. The MTPS is underpinned by AustralianSuper's core tenets – outlook and valuations. Adjustments are then made for key thematic drivers that AustralianSuper expects to influence asset class returns over the medium to long-term. The MTPS provides an anchor point for the active asset allocation process. Active asset allocation positions are underpinned by the Asset Allocation team's near-term cyclical outlook and current valuations. Translation rules are then applied to determine the asset allocations of the other PreMixed options.

The Asset Allocation team provides a monthly review of the asset allocation and market outlook to the Asset Allocation Group. AustralianSuper's principal investment consultants present their outlook to the Asset Allocation Group on a quarterly basis. This process highlights points of difference and identifies areas that are subject to further research and analysis. Views are rigorously debated and discussed in this forum before recommendations are presented to the Investment Committee for endorsement. A deep-dive review of the asset allocation outlook is conducted as a part of the MTPS and approved by the Investment Committee on a semi-annual basis.

The Investment Committee also approves asset allocation ranges. The Exposure Management team monitors and reviews the actual allocations on a daily basis to ensure each option's asset class exposure is within approved delegated ranges.

AustralianSuper's SAA represents a starting point for its active investment process and represents the risk and return profile of the portfolio it expects to hold over the long run. The role of the Investment Committee is to endorse the proposed SAAs for each of the PreMixed investment options for final approval by the Board.

Table 4 summarises AustralianSuper's core investment beliefs.

Table 4: Core investment beliefs

Overview	<p>AustralianSuper has a 'one portfolio' approach, seeking to leverage its internal and external resources and capabilities to maximise investment outcomes for its members across each investment option.</p> <p>It has a long-term investment focus and believes in maintaining broadly diversified portfolios across listed and unlisted assets, asset classes and strategies, managers and manager styles. The fund employs active asset allocation and active management within asset sectors where there is persistent value added. It sets strategic asset allocation targets which are used as a guide for allocating cash flows to sectors with the best expected returns.</p> <p>Over the past ten years, AustralianSuper has developed and grown its internal management capability. It now manages internal mandates across Australian equities, property, infrastructure, cash, international equities, credit, global fixed interest and private credit. In total, AustralianSuper managed about 57% of its assets directly at June 2024. However, AustralianSuper will continue to use external managers where it believes they have specialist expertise or can add greater value than it could produce internally.</p>
Strategic asset allocation	<p>AustralianSuper's SAA represents the starting point for its active investment process, reflecting the risk and return profile of the portfolio it expects to hold over the long run. This is the best representation to members of how AustralianSuper expects to be positioned through-the-cycle. Deviations from the SAAs reflect AustralianSuper's active management overlay.</p> <p>Compared with industry averages, AustralianSuper typically has higher strategic allocations to international equities and unlisted infrastructure and lower allocations to Australian equities and property.</p>
Medium-term asset allocation	<p>AustralianSuper implements medium-term (1 to 3 years) asset allocation tilts underpinned by outlook for major economies and valuations of key asset classes. Adjustments are also made for thematic drivers that are likely to influence asset prices over the medium to long-term. AustralianSuper's Medium-Term Portfolio Stance (MTPS) provides an anchor point for its active asset allocation process.</p>
Short-term asset allocation	<p>AustralianSuper generally does not engage in short-term market timing at the asset allocation level. However, it employs strategies within asset classes that take advantage of tactical movements in the market and have shorter investment horizons.</p>
Currency policy	<p>AustralianSuper sets a strategic foreign currency exposure level as part of the asset allocation process and maintains this through a currency overlay. For its Balanced option, the foreign currency exposure may range between 0 and 30% of the total portfolio. AustralianSuper actively manages its currency exposure around the benchmark neutral position, reflecting the Asset Allocation Group's assessment on the likely direction of the currency. The strategic asset allocation foreign currency exposure for the Balanced option is 19.5%.</p>
Active vs passive	<p>AustralianSuper believes in active management within asset classes but uses some passive management to lower portfolio costs or where active management opportunities are fewer.</p>
Sector portfolio construction	<p>AustralianSuper does not aim to achieve style neutral portfolios. It constructs portfolios with strategic tilts that it believes will add value.</p>

6. Portfolio Management

6.1 Resources

AustralianSuper's internal investment team is responsible for both research and portfolio management (see Manager & Asset Research for details of internal investment staff). This includes making recommendations to the Investment Committee (IC) on each investment option's risk and return objectives, asset allocation, currency policy and portfolio structure.

The fund has an experienced IC with particular experience in economic policy and investment in alternative assets. The IC, which meets approximately six times a year, comprises six Trustee Directors – Philippa Kelly (Independent Chair), Dr Don Russell (Independent), Innes Willox, Misha Zelinsky, Glenn Thompson and Michele O'Neill, as well as a member appointed by the AI Group – Richard Price, and two independent members – Russell Maddox and Pippa Downes.

6.2 Process

As CIO, Mark Delaney is ultimately responsible for the performance of AustralianSuper's diversified options, with the Portfolio Strategy and Asset Allocation teams (led by Justine O'Connell and Alistair Barker, respectively) being key drivers of portfolio management activities. The Portfolio Strategy team is responsible for Balanced option strategy while the Asset Allocation team remains responsible for recommending its SAA and its Medium-Term Portfolio Stance (MTPS). The Asset Allocation team is responsible for the management of diversified investment options other than the Balanced Option. The respective Asset Class teams are responsible for underlying asset class portfolios and single sector investment options. AustralianSuper adopts a collaborative total portfolio approach, seeking to combine top-down design and asset allocation decisions with asset class construction and security selection decisions, ensuring all are sized with the total portfolio outcome in mind.

AustralianSuper's overall investment governance structure is summarised below. 'Portfolio mix' refers to the mix of broad asset classes (the mix between listed equities, private equity, mid-risk assets, fixed income and cash), while 'asset class mix' refers to the mix within those broad asset classes (for example, within mid-risk assets, the mix between property, infrastructure and mid-risk credit).

- (a) The Board establishes AustralianSuper's overarching goals, investment return objectives, risk appetite and risk tolerances, and approves the Fund's investment policies and strategies.
- (b) The IC is responsible for the review of AustralianSuper's investment policies and strategies as well as monitoring the investment performance of the investment options against the investment return objectives and risk appetite set by the Board. The IC approves asset allocation ranges as well as risk, liquidity and cost targets. Additionally, all new internal strategies and significant direct transactions require approval from the IC.
- (c) The CIO and Investments Senior Leadership are responsible for the design of AustralianSuper's investment strategy and the execution of its investment program.
- (d) Asset Class teams and Portfolio Managers are responsible for the execution of their investment mandate.
- (e) Fund Services is responsible for providing operations, legal, tax, performance, mandate and regulatory compliance activities as well as operational risk support to the Investments team.
- (f) Group Risk is responsible for setting the risk management framework, overall appetite and accountabilities for managing risk and compliance obligations, and overseeing risk management activities.

The strategic asset allocation (SAA) and ranges are set annually. The Asset Allocation Group (described below) meets monthly to determine asset allocation and portfolio mix decisions. Active asset allocation tilts may be implemented within the asset allocation ranges approved by the IC. The Exposure Management team monitors and reviews the actual allocations on a daily basis to ensure each option's asset class exposure is within approved delegated ranges.

Several bespoke committees, referred to as Advisory Groups, support the CIO and Investments Senior Leadership in their decision-making. These mainly consist of senior staff in the investment team and may include external experts. Their role is to review and debate recommendations from Asset Class teams. Where the Group endorses a recommendation, it is then referred for approval to the CIO or Investments Senior Leadership, where they have delegated authority from the CIO.

Three Advisory Groups support the CIO, with the first two focusing on portfolio management decisions relating to the Balanced option:

- Asset Allocation Group (chaired by Alistair Barker) – assesses the outlook for markets and considers the impact on the current portfolio mix, asset class mix and SAA.
- Portfolio Management Group (chaired by Justine O’Connell) – assesses the positioning of the Balanced option to ensure it meets its performance objectives within the given cost, liquidity and risk constraints.
- Direct Investments Group (chaired by Mark Delaney) – advises the CIO on direct investment opportunities within the CIO’s delegated authority and recommendations to be brought to the IC. The CIO has delegated authority to approve directly managed unlisted asset transactions up to an approved limit. Sector Heads and Portfolio Managers also have some delegations to approve unlisted asset transactions up to set limits approved by the CIO and IC.

Key Advisory Groups that support the Investments Senior Leadership are:

- Equities Portfolio Construction Group (chaired by Mark Hargraves) – manages the broad direction of strategy and portfolio construction for the International Equities Portfolio for the Fund.
- Mid-Risk Mix (chaired by Jessica Melville) – manages the broad direction of strategy and portfolio construction for mid-risk assets for the Fund and sets the mid-risk assets strategy for the Balanced Option.
- Fixed Income & Currency (FIC) Portfolio Construction Group (chaired by Katie Dean) – manages the broad direction of strategy and portfolio construction for fixed interest and currency investments for the Fund.
- Direct Transaction Committee (chaired by Jason Peasley) – advises the Investments Senior Leadership on direct investment opportunities within their delegated authority.
- Liquidity and Implementation Portfolio Management Group (chaired by Chandu Bhindi) – manages the broad direction of strategy and portfolio construction for cash investments, securities finance activities and capital allocation.

As mentioned above, all new internal strategies and significant direct transactions require approval from the Investment Committee. JANA, in its role as adviser to the IC, provides independent initial and ongoing review on internal strategies. Allocations to internal strategies are approved by the IC with delegation to Investments Senior Leadership on the timing of funding, up to the IC approved limit. Redemptions from internal strategies require approval from the IC.

AustralianSuper believes the most important risk that needs to be managed is the risk of not achieving its stated investment objectives for members. In managing this, it assesses the following key risks:

- Market risk – is the portfolio adequately exposed to market risks to make money?
- Liquidity risk – is there adequate liquidity to meet cashflow obligations across the portfolio?
- Counterparty risk – are potential risks from the failure of a counterparty to a transaction being managed appropriately?
- Asset owner risk – are direct assets being effectively managed?

Managing liquidity risk is a key part of AustralianSuper’s investment process given its appetite for unlisted assets. AustralianSuper’s Liquidity Management Plan (LMP) establishes a framework to measure, monitor and manage the liquidity and rebalancing risks for the Fund and each of its investment options. It ensures that the Fund operates within the Board’s liquidity risk appetite and that investment portfolios have adequate liquidity to meet cashflow obligations. The LMP incorporates liquidity provisions for both normal and stressed market conditions. As part of the LMP, liquidity coverage ratios are calculated and monitored for all options and at the Fund-level each day.

AustralianSuper conducts rigorous scenario analysis, at least annually, to stress test the liquidity within the investment options and assess key liquidity indicators. These include:

- Testing that the level of illiquid assets remains within portfolio limits.
- Testing the net cash outflows from an investment option over the stressed scenario (stress test scenario is run over various time periods).
- Ensuring a reasonable level of cash is maintained in the investment options as an adequate cash buffer.
- Testing potential changes to government policy or regulations that could impact the liquidity of the investment portfolios (e.g. early release of super in 2020).

Out-of-cycle stress testing may be carried out if required, which may or may not be prompted by an actual market event.

To provide additional rigour around unlisted asset revaluations, AustralianSuper has a Valuation team that sits independently from the investment team. The Valuation team, which includes staff with valuation expertise, is responsible for providing oversight and review of valuations of unlisted assets. It acts as the central point of contact with independent external valuers and obtains inputs from individual asset class teams responsible for the specific investments being valued to ensure a robust valuation process with an enhanced layer of independence. Prior to any valuation being captured in unit pricing, the valuation is presented to the Valuation Committee for discussion and ultimate approval. The Asset Class teams join that discussion for their respective investments. In its role, the Valuation team reviews valuations received from independent valuers, challenging their assumptions and/or valuations, and makes adjustments where necessary.

In addition to continuing to grow its investment team, AustralianSuper continues to invest in systems. It uses Aladdin as its portfolio risk management system. Aladdin comprises risk analytics as well as portfolio management, trading and operational tools to assist investment decision-making, effective risk management and efficient implementation. AustralianSuper's tailored performance and attribution system, 'PEARL', provides granularity into the underlying drivers of performance. AustralianSuper is now in the midst of enhancing its liquidity management and risk reporting system. A key change during the past year was further internalisation of cash to centralise its liquidity risk management and enhance daily cash management.

7. Approach to Responsible Investment

AustralianSuper's ESG & Stewardship team, led by Andrew Gray, comprises 18 staff working across all asset classes to ensure that Environmental, Social and Governance (ESG) risks and opportunities are considered in the investment and ownership processes. The ESG and Stewardship team reports on the key activities of the ESG and Stewardship program to the Board and Investment Committee. AustralianSuper also measures the progress of the program through various independent assessments such as Responsible Investment Association Australian (RIAA). AustralianSuper has been a PRI signatory since May 2007.

AustralianSuper's ESG & Stewardship is based on three pillars:

- ESG integration – integrating ESG considerations when deciding which assets and companies to invest in and assessing their investment value.
- Stewardship – exercising its rights and responsibilities as an asset owner to seek positive management of ESG issues that can impact members' investment returns.
- Choice – considering members' values in the investment choices it offers.

AustralianSuper integrates ESG considerations into its internal strategies and in the assessment and monitoring of external managers. However, its ESG integration and stewardship approach varies by asset class and the characteristics of the investment, including whether it is directly managed or through external managers, and whether it is through an active or passive strategy. As an example, prior to investing in companies in its internal fundamental portfolios in Australian equities, AustralianSuper conducts due diligence to seek to identify ESG issues that can impact the value of the company. This includes preparing red flag review reports to identify ESG issues and integrating the findings into the Australian Equities team's Key Value Driver assessments which informs its investment valuations and ultimately its decision to invest. The assessment includes consideration of possible valuation impacts due to ESG risks and evaluates underlying companies on their mitigation strategies to manage these risks. Should the decision be made to invest, the findings from the red flag review are used as the base for the company's Ownership Plan and initial engagements with the company. For its direct unlisted property and infrastructure assets, team members are involved in the due diligence process pre-acquisition, and they engage and provide input on ESG issues on an ongoing basis throughout ownership. This includes delivering training programmes to AustralianSuper-appointed non-executive directors and providing comments and feedback on asset-specific ESG strategies/initiatives and periodic ESG-specific engagements.

The ESG & Stewardship team utilises an external manager assessment framework for listed equity managers which helps evaluate how well prospective managers incorporate ESG considerations into their own investment process and how the manager engages with companies it invests in where issues arise. The outcome of this assessment is provided as an input for the internal asset class team's decision to appoint the manager and factors into the annual manager review process. For other asset classes, it asks external investment managers about their approach to ESG considerations during the appointment and annual operational due diligence processes.

AustralianSuper engages with companies and assets, seeking to improve performance on ESG-related issues that can impact members' long-term investment outcomes. It engages directly and collaboratively with other investors through groups such as ACSI and Climate Action 100+. Other collaborations in which AustralianSuper is an active member include the Investor Group on Climate Change (IGCC), Investors Against Slavery and Trafficking (IAST) APAC and the Sustainable Developments Investments Asset Owners Platform (SDI-AOP) in relation to UN SDGs. For engagement with overseas companies, AustralianSuper utilises the services of an external engagement adviser.

AustralianSuper makes its proxy voting decisions based on what it considers to be in the best investment interest of members, drawing on proxy voting advice from its service providers – Glass Lewis for international companies and Australian Council of Superannuation Investors (ACSI) for Australian shareholdings.

Although AustralianSuper prefers to engage on ESG issues, where it invests directly, it applies a portfolio-wide exclusion to companies involved in the production of tobacco products, including companies that grow or process raw tobacco leaves, across all investment options. AustralianSuper also offers a Socially Aware investment option (not covered in this report) which applies additional investment exclusions to certain investments in listed Australian and international shares, and to corporate securities (such as bonds, loans and other debt instruments) in the fixed interest asset class, which in aggregate currently cover around 60% of the option's total assets. The screens are explained on AustralianSuper's website.

AustralianSuper has committed to achieving net zero emissions by 2050 in the investment portfolio (based on scope 1 and scope 2 emissions of portfolio investments). The carbon intensity in the Fund's Australian and International shares asset classes has reduced by 43% between 2013 and 2023. Reductions in emissions aim to be achieved through the four pillars specified in its Climate Change Report – Investment Activities, Stewardship, Collaboration & Advocacy and Disclosure & Measurement. In 2020, AustralianSuper established the SDI-AOP alongside three other major global asset owners. By using standardised and artificial intelligence-driven data, the platform seeks to help investors identify and assess companies on their contribution to the UN Sustainable Development Goals (SDGs). A number of major asset owners, asset managers and index providers now subscribe to the Platform. In its Annual Report, AustralianSuper has published its portfolio contribution to SDGs across Australian equities, international equities and fixed interest.

AustralianSuper utilises a range of ESG data providers, including MSCI for ESG ratings, research and emissions data, S&P Global Sustainable1 for emissions and climate risk data, SASB's Materiality Map (together with its in-house due diligence framework) which assists in the evaluation of the materiality of ESG issues for individual direct transactions, and Moody's to assist in the assessment of physical climate and environmental risk for its unlisted property and infrastructure portfolios. AustralianSuper utilises GRESB benchmarking to assist with ESG portfolio level and asset information for private markets and is an investor member of GRESB real estate and infrastructure.

AustralianSuper's Responsible Investment Policy (in the form of its ESG and Stewardship Policy) was last updated in January 2023) and is publicly available on its website. AustralianSuper also reports on and discloses information about the ESG and stewardship activities in its Annual Report. Also available on its website are its Climate Change Report (June 2023) and its most recent PRI Transparency and Assessment Reports (2023 for the year ended 31 December 2022).

8. Portfolio Structure

8.1 Investment Options Offered

AustralianSuper offers six PreMixed diversified options (four of which have been rated in this report) and four single asset class options. In addition, it offers a Member Direct option that enables members to invest in any shares listed in the S&P/ASX 300 Index, a range of ETFs, Listed Investment Companies (LICs) and term deposits.

8.2 Diversified Options

Table 5 shows the current risk/return objectives, strategic asset allocations (SAAs) and key statistics for Australian Super's PreMixed core diversified options. Table 6 compares the actual asset allocations at June 2024 with the strategic asset allocations.

SAAs are reviewed annually and represent a starting point for its active investment process and representing the risk and return profile of the portfolio it expects to hold over the long run. Australian Super adjusts its actual asset allocations based on its current views on markets.

Table 5: Diversified Options – Risk / Return Objectives, SAAs and Key Statistics

Asset sector	Stable	Conservative Balanced	Balanced	High Growth
Risk / Return Objectives ¹				
CPI +	1.5%	2.5%	4.0%	4.5%
Minimum suggested timeframe	5 yrs	7 yrs	10 yrs	12 yrs
Chance of a -ve annual return	3 in 20 yrs	4 in 20 yrs	5 in 20 yrs	5 in 20 yrs
SAA (%)				
Listed Equities				
Australian	9.35	17.0	23.85	30.4
International	12.9	22.25	30.65	39.1
Private Equity	1.5	2.75	4.75	6.0
Mid Risk Assets				
Direct Property	6.25	6.25	8.0	6.75
Direct Infrastructure	7.25	8.0	9.25	7.5
Credit	5.25	6.75	4.0	2.75
Fixed Interest	35.25	25.75	14.5	4.25
Cash	22.25	11.25	5.0	3.25
Total	100	100	100	100
Key Statistics ²				
Growth / defensive assets ³	33.1 / 66.9	52.5 / 47.5	69.9 / 30.1	84 / 16
Active / passive	98 / 2	97 / 3	96 / 4	96 / 4
Internal / external	58 / 42	57 / 43	57 / 43	58 / 42
Listed / unlisted assets ⁴	80 / 20	76 / 24	74 / 26	77 / 23
Currency exposure ⁵	9.0	15.0	19.5	27.0

Notes

1. Return objectives are after investment fees and tax.
2. Key statistics are based on SAAs except in the case of the active/passive and internal/external splits.
3. Defensive assets include 100% of fixed interest and cash and 50% of direct property, direct infrastructure and credit.
4. Unlisted assets include private equity, direct property, direct infrastructure and credit.
5. Currency exposure represents % of the total portfolio.

Table 6: Diversified options – actual asset allocations at June 2024 (%)

Asset Sector	Stable		Conservative Balanced		Balanced		High Growth	
	Actual	SAA	Actual	SAA	Actual	SAA	Actual	SAA
Australian Equities	9.9	9.35	17.4	17.0	24.5	23.85	31.4	30.4
International Equities	16.3	12.9	25.5	22.25	33.0	30.65	41.9	39.1
Private Equity	1.8	1.5	3.5	2.75	4.9	4.75	5.6	6.0
Direct Property	2.9	6.25	2.8	6.25	4.2	8.0	2.6	6.75
Direct Infrastructure	14.0	7.25	14.3	8.0	14.4	9.25	10.2	7.5
Credit	3.2	5.25	3.5	6.75	2.8	4.0	0.9	2.75
Fixed Interest	31.4	35.25	21.7	25.75	11.8	14.5	1.5	4.25
Cash	20.1	22.25	11.0	11.25	4.1	5.0	5.7	3.25
Other Assets ²	0.4	0	0.3	0	0.3	0	0.2	0
Growth Assets	38.4	33.1	57.0	52.5	73.3	69.9	85.9	84.0
Defensive Assets	61.6	66.9	43.0	47.5	26.7	30.1	14.1	16.0
Foreign Currency	8.6	9.0	14.3	15.0	18.6	19.5	25.6	27.0

Notes

1. SAAs are effective 1 July 2024.
2. Other assets represent unique opportunities or strategies. Examples include strategic equity holdings, commodities, royalties, leases and other alternative investments.

8.3 Sector portfolios (within diversified options and stand-alone sector options)

The broad structure of the fund's asset sector portfolios is summarised below. Table 7 lists the underlying managers (for the fund's total portfolio excluding the Socially Aware and Indexed Diversified options) at June 2024.

(a) Australian shares

The \$80.2 billion Australian equities portfolio is managed as one overall framework with mandates for large caps, small & mid-caps and microcaps. The portfolio currently has a passive component (4%) and an active component comprising three mandates managed by AustralianSuper – large caps (core), small/mid-caps (growth) and microcaps. The passive component comprises a passive mandate managed by IFM that tracks the S&P/ASX 100 Index and an enhanced index mandate managed internally. The active component is a concentrated portfolio focussing on investing in high quality, well-managed companies that are expected to outperform the Australian market over the long-term. In total, the internal team manages about 97% of the Australian equities portfolio including derivatives.

The stand-alone Australian Shares option has the same investment exposure as the Australian equities portfolio within AustralianSuper's diversified options.

(b) International shares

The \$107.8 billion international equities portfolio is invested across developed and emerging markets with tilts to/from areas that AustralianSuper believes to be undervalued/overvalued. Overall, the portfolio has a 92/8 active/passive split. Investment mandates include eight external developed market managers (seven of those being active and one passive) and two external emerging markets managers. In addition to this, at June 2024 the internal teams managed three mandates – a fundamental core developed markets portfolio, two quant strategies and a fundamental Asian emerging markets equities portfolio (this was subsequently terminated in July 2024). The internal fundamental core portfolio accounts for about 15% of the international equities portfolio while the two internal quant strategies (value and core mandates) account for 10% in total. At June 2024, AustralianSuper also managed a completion portfolio to manage specific investment exposures, which accounted for about 5% of the overall portfolio. Overall, including derivatives, AustralianSuper manages about 31% of the international equities portfolio internally.

At June 2024, the international equities portfolio had about a 12% allocation to emerging markets (on a look-through basis). The portfolio moved away from being defensively positioned over the past year. However, AustralianSuper actively manages styles while remaining aware of sector positions for risk management purposes. It generally doesn't actively take regional tilts.

The stand-alone International Shares option has the same investment exposure as the international equities portfolio within AustralianSuper's diversified options.

(c) Private equity

The \$15.2 billion private equity portfolio has an 80/16/4 split between international and Australian investments, and cash. The portfolio consists of core funds (53%), co-investments (34%) and co-underwrites (9%) with a small exposure to cash (4%). Co-investments can be internal or external. External co-investments are via external discretionary mandates where investments are made on behalf of AustralianSuper by an external party. Internal co-investments relate to investments reviewed and decided on by AustralianSuper. Going forward, AustralianSuper will no longer pursue new external co-investments and will focus on internal co-investments. Longer term, AustralianSuper expects two-thirds of the portfolio to be managed internally including one-third of the portfolio managed through co-underwrites. With co-underwrites, individual deal sizes are now smaller than what they previously were.

AustralianSuper invests in private equity through specialist funds managed by high quality private equity managers (general partners), while building strong relationships with those managers to co-invest and co-underwrite alongside them. On-the-ground presence and fund participation remain key to developing strong relationships with general partners and accessing deal flow.

(d) Mid-Risk Assets

Within the overall \$64 billion mid-risk portfolio (direct property, direct infrastructure and credit), thematic research and underlying asset classes competing for capital will underpin overall mid-risk portfolio exposures. This enables the Mid-Risk Assets team to identify and pursue the most attractive risk-adjusted returns. Consistent with this approach, as mentioned earlier in the 'Manager and Asset Research' section, in October 2023, the Property and Infrastructure teams were combined into a single Global Real Assets team.

Mid-risk investment exposures will be in the form of concentrated portfolios via large stakes in illiquid businesses and loans. The team intends to actively manage, develop and evolve underlying assets to generate additional revenue streams. The team recognises that to be an integrated one-portfolio team, it needs an integrated portfolio and investment process. Additionally, within the mid-risk asset space, AustralianSuper has become less reliant on partners to originate or execute deals. Current underlying mid-risk asset class portfolio structures are summarised below.

Direct Property

The \$12.4 billion property portfolio has a 64/36 split between Australian and international property with 30% invested in the UK and 6% in the US. Longer term, the international property exposure is expected to increase, given the size of international markets relative to Australia. The internal direct portfolio makes up 53% of the overall property portfolio. ISPT and QIC are the portfolio's cornerstone external managers, managing Australian property. Longer term, the strategy is to continue to grow the direct portfolio.

The portfolio has about 41% is invested in office property, 25% in retail property (down from 47% five years ago), 21% in industrial (up from 4% five years ago), 8% in residential/multifamily properties, and 5% in other assets.

Direct Infrastructure

The \$43.4 billion direct infrastructure portfolio has an approximate 51/49 split between Australian and international infrastructure. IFM is the only core manager in both the Australian and international portfolios. Overall, IFM accounts for about 35% of the total infrastructure portfolio. Direct investments currently account for about 55% of the portfolio and will continue to grow over the longer term. The remaining assets are invested in various infrastructure platforms.

The portfolio has about 60% invested in transport assets (airports, seaports, roads and rail), 14% in telecommunications and data, 8% in utilities, 6% in oil & gas, 8% in renewables and 4% in other.

Credit

At June 2024, the overall \$8.3 billion private-credit portfolio comprised two buckets – private credit (\$6.2 billion representing 74% of the portfolio) and liquid credit (\$2.1 billion representing 26% of the portfolio). The majority of the private credit portfolio (higher return-seeking and less liquid than the liquid credit component) is the internally managed portfolio (about 65%). With this internal strategy, individual deal sizes are now smaller than what they previously were. The remainder of the private credit portfolio is made up of an external real estate loans (EREL) portfolio (through Perpetual and MaxCap), a middle market loans strategy (through a partnership with Churchill), multisector credit and other smaller positions. The liquid credit portfolio comprises high yield credit and leveraged loans strategies and is almost entirely managed by SSgA (>99%) with a small allocation to Bentham (<1%).

(e) Fixed Interest

The structure of the \$47.5 billion portfolio has undergone a series of changes in recent years, with the sector now gaining its investment exposure through the following strategies – macro fundamental, internal government portfolios, quantitative strategies and specialist external managers. At June 2024, the portfolio comprised one specialist Australian credit manager (IFM), one broad-market international mandate (Brandywine), a dedicated investment grade credit mandate (Western), a global rates (AXA) and a US mortgage-backed mandate managed by Putnam. Morgan Stanley is responsible for a securitised mandate while Ardea manages a relative value mandate. Additionally, the internal team currently manages an investment grade global sovereign bond mandate, an Australian high grade spread portfolio focussing on investment-grade government-related bonds, an investment grade credit mandate (currently in run-off), and futures. In total, the internal team manages about 55% of the bond portfolio. Overall, the portfolio has a duration limit of +/- 4 years away from the benchmark and at June 2024 was marginally underweight versus the benchmark. Additionally, for liquidity purposes, a minimum of 40% of the portfolio must be held in treasury and government bonds.

From 1 October 2024, the stand-alone Diversified Fixed Interest option has been managed largely the same way as the fixed interest exposure within the PreMixed options. However, from time to time, it may also allocate to mid-risk credit (currently a zero weighting but may invest up to 20%) and cash. At 1 October 2024, it had a duration of 5.2 years while the benchmark duration was 5.7 years.

(f) Cash

The cash component of the PreMixed options is managed differently to the stand-alone Cash Option. The Cash option's underlying investments is limited to the AASB 107 definition of cash and cash equivalents. However, the cash exposure within the PreMixed options does have the ability to invest in selected investments outside the AASB definition, such as asset-backed or mortgage-backed instruments.

Table 7: Investment Managers – June 2024

Asset sector	Manager	Actual % of sector	Style
Australian shares	Passive (4%)		
	IFM	2.6	Passive (S&P/ASX100)
	Internal quant	1.5	Enhanced passive
	Core (75%)		
	Internal Large Caps	74.8	Core
	Small Cap (20%)		
	Internal Small/Mid Caps	19.1	Growth
	Internal Micro Caps	1.2	Growth
	Other (1%)		
	Other	0.8	Equitised cash
International shares	Developed Markets (92%)		
	Sanders	18.7	Value
	Alphinity	15.1	Core
	Internal Fundamental	14.8	Core
	Internal Quant Value	9.4	Value
	MFS	8.1	Core
	Dimensional	7.8	Passive
	Orbis	6.4	Value
	Internal Growth Completion	4.7	Completion portfolio
	Baillie Gifford	3.9	Growth
	C WorldWide	1.5	Growth
	Internal Quant Core	0.6	Core
	Sustainable Growth Advisers	0.5	Growth
	Emerging Markets (7%)		
	GQG	4.2	Growth / quality
	LSV	2.9	Value
	Internal	0.2	Core
	Other (1%)		
	Other	1.2	Transition/equitised cash
	Private Equity	International (80.6%)	
Funds		44.6	Funds
Co-investments		31.5	Co-investments
Co-underwrite		4.5	Co-underwrite
Australian (15.8%)			
Funds		8.0	Funds
Co-underwrite		4.8	Co-underwrite
Co-investments		3.0	Co-investments
Cash (3.6%)			
Cash		3.6	Cash

Note:

Manager allocations are based on AustralianSuper's total investment in each asset class.

Table 7: Investment Managers – June 2024 (cont.)

Asset sector	Manager	Actual % of sector	Style	
Direct Property	Internal direct	53.2	Office, industrial, development, residential	
	ISPT	33.7	Office, retail, industrial mid risk	
	QIC	9.2	Retail, office	
	Various	3.9	Funds and other assets	
Direct Infrastructure	Internal direct	55.3	Direct investments	
	IFM	34.5	Funds	
	Indirect	10.2	Platforms, funds and other	
Private credit	Internal	64.8	Global real assets debt	
	Perpetual	12.6	External real estate loans	
	Churchill	11.1	Middle market loans	
	MaxCap	7.4	External real estate loans	
	IFM	1.4	Transition private credit	
	Other	2.7	Other private credit	
Liquid credit/loans	SSgA	99.8	High yield bonds	
	Bentham	0.2	Leverage loans	
Fixed Interest	Internal	28.2	Government / government-related bonds	
	Internal	24.6	Australian High Grade Spread	
	Ardea	15.7	Relative value	
	IFM	7.4	Diversified credit	
	Western	5.5	Investment Grade	
	Brandywine	5.3	Global fixed income	
	AXA	4.4	Global fixed income	
	Morgan Stanley	4.2	Securitised	
	Putnam	1.6	US mortgage-backed	
	Internal	1.0	Investment grade credit	
	Internal	0.9	Completion/tilts	
	Cash	1.2	Cash and other	
	Cash	Internal	69.7	n.a.
		IFM	30.3	n.a.

Note:

Manager allocations are based on AustralianSuper's total investment in each asset class.

9. Performance

9.1 Diversified options

Table 8 shows the performance of four AustralianSuper diversified options over several periods to June 2024. To illustrate absolute risk, it shows the five-year standard deviation. The table compares fund performance with the median of a universe of superannuation funds. The figures in brackets in both tables represent excess returns relative to the Chant West Super Fund Performance Survey Median.

AustralianSuper's diversified options have underperformed peers over one and three years to June 2024, partly due to a more defensive position during most of the 2023 calendar year. Peer-relative underperformance of its unlisted property and private equity portfolios has also contributed to this underperformance. However, performance of AustralianSuper's diversified options over longer periods has generally been ahead of peer medians. Its long-term outperformance is partly due to its relatively higher allocation to infrastructure and private equity. AustralianSuper's asset allocation tilts and the generally strong performance of its Australian equities portfolio have also contributed to the fund's long-term outperformance.

Table 8: Diversified Options – Returns to June 2024 (% pa)

Option	1 Year	3 Years	5 Years	7 Years	10 Years	Std Dev
High Growth (84/16)	10.2 (-0.5)	5.4 (-0.3)	7.9 (+0.3)	8.7 (+0.5)	9.1 (+0.7)	9.1
CW Median (88/12)	10.7	5.7	7.6	8.2	8.4	9.1
Objective	8.3	9.8	8.4	7.8	7.3	-
Balanced (70/30)	8.5 (-0.6)	4.5 (-0.4)	6.7 (+0.4)	7.6 (+0.7)	8.1 (+0.9)	7.5
CW Median (71/29)	9.1	4.9	6.3	6.9	7.2	7.4
Objective	7.8	9.3	7.9	7.3	6.8	-
Conservative Balanced (53/47)	6.5 (-0.8)	3.0 (-0.9)	4.8 (+0.0)	5.7 (+0.3)	6.3 (+0.6)	5.5
CW Median (54/46)	7.3	3.9	4.8	5.4	5.7	5.5
Objective	6.3	7.8	6.4	5.8	5.3	-
Stable (33/67)	4.6 (-0.9)	1.8 (-0.7)	3.1 (-0.1)	4.0 (+0.2)	4.7 (+0.4)	3.7
CW Median (34/66)	5.5	2.5	3.2	3.8	4.3	3.8
Objective	5.3	6.8	5.4	4.8	4.3	-

Notes

1. Returns are net of investment fees and tax. Standard deviation is over five years.
2. Chant West (CW) Median refers to the relevant Chant West Performance Survey Median.
3. Return objective performance takes into consideration changes to objectives over time.

9.2 Sector portfolios

(a) Gross performance

Table 9 shows the gross performance of AustralianSuper's sector portfolios over several periods to June 2024. It also shows the tracking error over three years. The figures in brackets in both tables represent excess returns relative to the Chant West Median.

Table 9: Gross returns to June 2024 (% pa)

Portfolio	1 Year	3 Years	5 Years	7 Years	10 years	Tracking Error
Australian Shares	13.1 (+0.1)	7.9 (+1.4)	8.9 (+0.9)	9.8 (+0.7)	9.0 (+0.3)	1.6
Benchmark	11.9	6.1	7.2	8.7	8.0	-
CW Median	13.0	6.5	8.0	9.1	8.7	1.9
International Shares	18.9 (-0.3)	7.2 (-1.6)	12.4 (+0.2)	13.0 (+0.7)	13.4 (+0.6)	2.3
Benchmark	19.9	11.2	13.0	13.2	13.1	-
CW Median	19.2	8.8	12.2	12.3	12.8	2.9
Private Equity	0.1	6.8	10.6	11.7	12.3	n.a.
Benchmark	6.0	7.4	14.9	13.6	12.8	-
Direct Property	-8.2	-3.2	-2.0	0.4	3.4	n.a.
Benchmark	-8.1	0.0	1.1	3.1	5.6	-
Direct Infrastructure	5.8	9.2	8.0	9.3	10.7	n.a.
Benchmark	7.1	9.7	8.3	9.4	10.3	-
Mid-Risk Credit	3.2	3.2	3.3	4.2	-	n.a.
Benchmark	9.8	2.6	3.1	3.4	-	-
Fixed Interest	2.7	-2.9	-0.8	1.1	-	0.5
Benchmark	3.2	-2.4	-0.6	1.1	-	-
Cash	4.8	2.7	1.9	2.0	2.2	0.1
Benchmark	4.4	2.4	1.6	1.7	1.9	-

Notes

- Returns are gross of investment fees and tax except for Private Equity, Property and Infrastructure where the returns are gross of tax and net of underlying investment manager fees.
- Chant West (CW) Median refers to the relevant Chant West Performance Survey median.
- Returns for Australian Shares include the benefits of franking credits received from participation in share buy-backs.
- Benchmark for Australian Shares is the S&P/ASX 300 Accumulation Index
- Benchmark for International Shares is the MSCI World Ex-Aust Accumulation Index A\$
- Benchmark for Private Equity is the Hamilton Lane Customised Median Fund Index
- Benchmark for Direct Property is 60% Mercer/IPD Unlisted Property Index, 20% IPD UK Quarterly Property Fund and 20% Open End Diversified Core Equity
- Benchmark for Direct Infrastructure is bespoke and calculated by Frontier. Prior to July 2015, it was 30% Bloomberg AusBond Composite Index, 70% Citigroup World Govt. Bond Ex-Aust Index Hedged A\$ plus 4%
- Benchmark for Mid-Risk Credit is 50% Bloomberg Barclays Global High Yield (Hedged to AUD), 50% S&P Global Leveraged Loan Index (Hedged to AUD). Prior to January 2018, it was 60% Credit Suisse Leveraged Loan Index A\$ Hedged / 20% Credit Suisse Western European Leveraged Loan Index A\$ Hedged / 15% BofA Merrill Lynch US High Yield Index A\$ Hedged / 5% BofA Merrill Lynch Euro High Yield Index A\$ Hedged
- Benchmark for Fixed Interest is 50% Bloomberg AusBond Composite Index 0+ Yrs / 50% Bloomberg Global Aggregate Index A\$ Hedged
- Benchmark for Cash is the Bloomberg AusBond Bank Bill Index

(b) Net of investment fees and tax performance (stand-alone options only)

Table 10 shows the net of investment fees and tax performance of AustralianSuper's stand-alone single-sector options compared with the relevant Chant West median. The performance of the Australian Shares option has been well ahead of peers over all periods shown to June 2024. The performance of the International Shares and Diversified Fixed Income options has been ahead of peers over most periods shown while the Cash option has performed broadly in line with the median over all periods.

Table 10: Net returns to June 2024 (% pa)

Portfolio	1 Year	3 Years	5 Years	7 Years	10 years
Australian Shares	12.7 (+1.3)	8.3 (+1.6)	9.0 (+1.0)-	9.9 (+1.0)	9.3 (+1.0)
CW Median	11.4	6.7	8.0	8.9	8.3
International Shares	17.2 (+1.0)	6.5 (-0.1)	11.3 (+1.6)	11.6 (+1.8)	11.9 (+1.8)
CW Median ³	16.2	6.6	9.7	9.8	10.1
Diversified Fixed Interest	3.1 (-0.1)	-0.7 (+1.0)	0.3 (+0.5)	1.2 (+0.1)	2.3 (+0.3)
CW Median	3.2	-1.7	-0.2	1.1	2.0
Cash	4.0 (-0.1)	2.3 (+0.0)	1.6 (+0.0)	1.7 (+0.0)	1.9 (+0.1)
CW Median	4.1	2.3	1.6	1.7	1.8

Notes

1. Returns are net of investment fees and tax.
2. Chant West (CW) Median refers to the relevant Chant West Performance Survey median.
3. Most investment options in the Chant West's International Shares (Net) universe are unhedged but we define this universe as 0-50% hedged as some investment options in this category have a partial hedge.

Report Certification

Date of issue: 16 January 2025

Role	Analyst	Title
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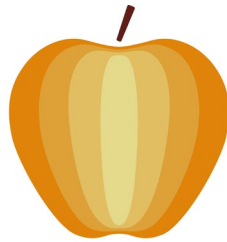
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