

# AustralianSuper's unlisted assets

AustralianSuper invests in a diversified mix of assets, including listed and unlisted assets, to grow members' savings over time.

AustralianSuper uses multiple asset classes to achieve the return objectives of investment options while taking an appropriate amount of investment risk. These asset classes include exposure to both listed and unlisted assets. Unlisted assets are an integral part of member investment options as they provide diversification, relative return stability, better risk adjusted returns and a long-term focus.

## What are unlisted assets?

Unlisted assets are investments that are not listed on an exchange. They can include real assets, private equity and private credit. Although unlisted assets are often categorised together, there are significant differences between the types of unlisted assets and their role in a diversified portfolio.

### Real assets

Real assets include both infrastructure and property. Real asset investments provide funds to develop or maintain infrastructure assets or to directly acquire property. These types of investments can improve living standards, as well as a country's economic development.

### Infrastructure

Infrastructure investments provide capital to develop or maintain assets that are essential services or facilities such as transportation, communication, sewage and power services. These types of investments can improve living standards as well as a country's economic development.

## Comparison of listed and unlisted asset returns

Unlisted assets can exhibit less volatility when compared to listed markets. This is because unlisted assets are valued less often than listed counterparts. The valuations of unlisted assets reflect the revenue and operational conditions of the asset, and therefore they are not as easily affected by day-to-day market sentiment. For example, returns for unlisted infrastructure and property were less volatile in 2008 and 2020 when the Global Financial Crisis and the COVID-19 downturn had a major negative impact on listed equity returns and a lower impact on unlisted asset valuations.

**Benchmarks:** Unlisted Infrastructure: AustralianSuper Infrastructure Benchmark (Frontier), Unlisted Property: MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index (post fee), Australian Shares: S&P/ASX 300 Index. Data to 30 June 2024.

Infrastructure projects often rely on substantial initial investments as well as additional capital to grow and maintain the asset.

### Property

Property investments involve directly acquiring property assets such as shopping centres, office buildings or industrial warehouses. Returns can be generated from increases in property value from development and price appreciation or rental incomes. Prudent management enables an owner to enhance the value of the property and improve income generation.

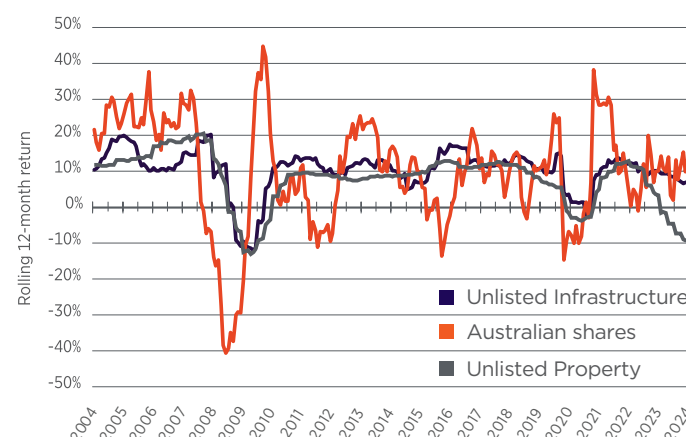
### Private equity

Private equity investments provide capital for private companies that are not listed or publicly traded. The most common categories of private equity include venture capital, growth capital and leveraged buyouts. Private equity investments often require a commitment to specialist fund managers that drive value in their portfolio of companies through sophisticated governance and financial and operational management.

### Credit

Private credit investments are debt securities with higher yields to compensate for being unrated or having a lower credit quality compared to investment grade debt. Examples include direct loans for commercial real estate construction or subordinated loans made to brownfield infrastructure assets.

Listed and unlisted benchmark returns to 30 June 2024



## Why invest in unlisted assets?

Unlisted assets have been a valuable part of AustralianSuper's portfolio due to their lower correlations with listed markets and distinct characteristics which provide benefits to a balanced portfolio.

With respect to most unlisted asset classes these characteristics include:



### Diversification

Allocating to multiple asset classes with lower correlations to each other diversifies portfolio risk. Unlisted asset returns can be relatively uncorrelated to the business cycle and less exposed to short-term market volatility. The use of unlisted assets to diversify returns through market cycles can provide a ballast in the portfolio during listed share market downturns, potentially resulting in greater return stability in comparison to listed share market returns.



### Relative return stability

Real assets can generate steady income streams. For example, income can be earned from rents locked in over a fixed term contract period or returns from a power station or toll road subject to a long-term agreement. Due to their long-term investment horizon and less frequent valuations, real assets are less subject to short-term market volatility, in normal market environments. From a total return perspective property and infrastructure assets tend to display less volatility than listed equities.



### Premium on returns

Investing directly into unlisted assets has high barriers to entry which historically has provided a return premium over listed assets. The return premium is derived from the complexity of transacting in unlisted assets as well as their illiquidity. Investing in unlisted assets requires specialised expertise and has large transaction costs. Having sufficient resources to analyse and evaluate unlisted opportunities, as well as negotiate and implement contractual terms, requires adequate scale to justify the allocation of resources to execute at a reasonable cost. Unlisted assets also require large capital outlays and an extended time horizon for investment. These factors provide an illiquidity return premium for patient investors that can allocate long-term capital to invest in unlisted assets.



### Better risk-adjusted returns

Unlisted assets have historically generated superior risk adjusted returns when compared to many other asset classes. This involves measuring an investment return in relation to the amount of risk taken to achieve that return. Historically, some unlisted assets were positioned on the risk/return curve between fixed interest investments and listed shares, enabling an investor to extract additional return for the level of risk taken.



### Long-term focus

The longer-term investment horizon for unlisted assets is aligned with the long-term time horizon of superannuation funds and members investing for retirement. Unlisted infrastructure, property and private equity investments are generally held for the long term. This enables asset owners and governing bodies (boards) to make development decisions to improve the long-term value of unlisted assets. In contrast, board members for listed assets can sometimes be pressured into making shorter term decisions which can affect long term value.



King's Cross Estate – London, UK.

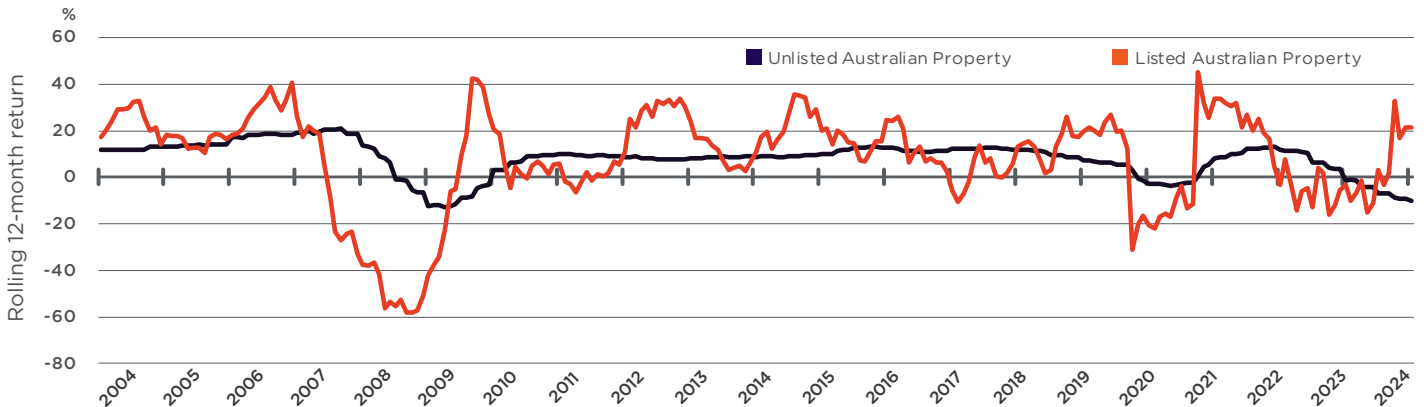
### Consideration when investing in unlisted assets

The benefits of investing in unlisted assets do come with a trade-off, based on their illiquidity. Unlisted assets are considered illiquid as they can be harder to trade or find buyers willing to transact at a given price. Illiquidity is defined as not being able to sell an asset at its fair value within three months. In some situations, the valuation of unlisted assets can change sharply as they are typically valued infrequently, relative to listed instruments such as shares. During distressed market environments, it may not be possible to sell unlisted assets at a fair or reasonable price. AustralianSuper places limits on the amount of illiquid assets that are included in the PreMixed investment options to help manage liquidity risks.

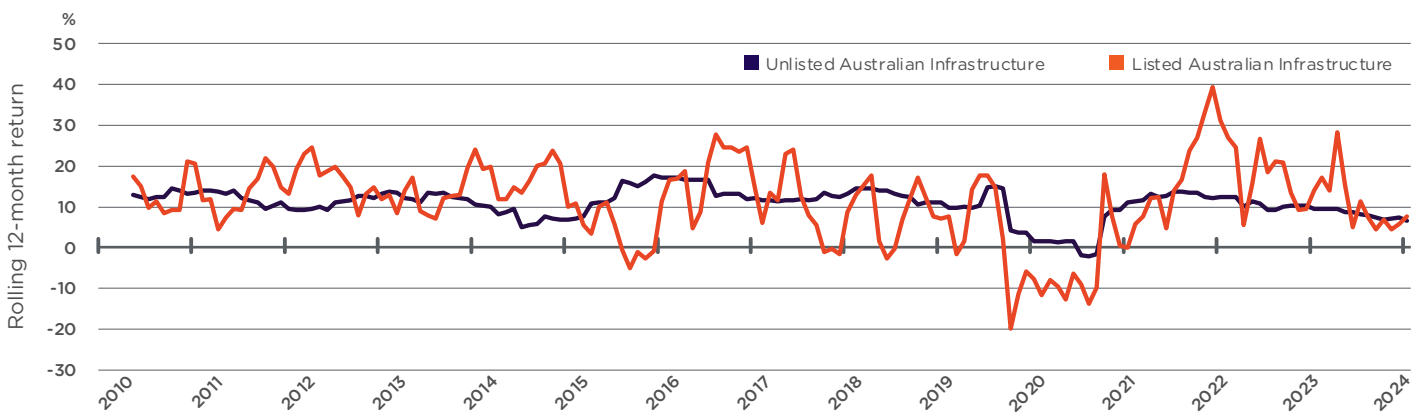
## More stability in returns from unlisted property and infrastructure

The charts below compare listed and unlisted rolling 12 month returns for infrastructure and property. These charts demonstrate an increased level of variability in the returns from listed property and infrastructure, compared to unlisted property and infrastructure.

### Comparison of listed and unlisted property benchmark returns to 30 June 2024



### Comparison of listed and unlisted infrastructure benchmark returns to 30 June 2024

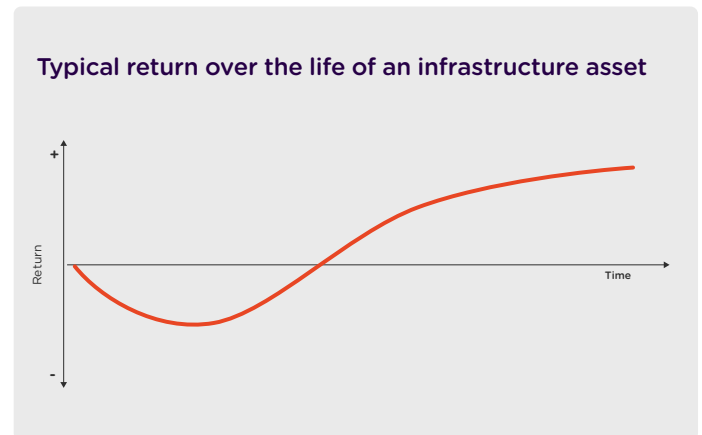
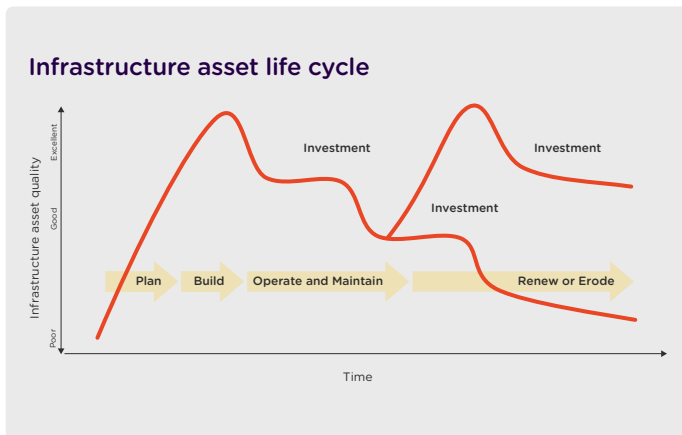


**Benchmarks:** Unlisted Australian Property: MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index (post fee), Listed Australian Property: S&P/ASX 300 A-REIT Index, Unlisted Australian Infrastructure: AustralianSuper Infrastructure Benchmark (Frontier), Listed Australian Infrastructure: S&P/ASX Infrastructure Index.

Data to 30 June 2024.

## The life of an Infrastructure asset

Effective management of an asset can help to improve performance, reduce costs and lower risks. Having appropriate expertise to plan, build, operate and maintain an asset can extend its lifespan and improve an asset's condition.



The charts above show the typical lifecycle and return pattern of an infrastructure asset. In the beginning, these assets need a lot of money for things like construction and setting up operations, leading to high costs for the asset. This is shown by the 'J-curve' in the chart on the right side, where returns are negative in the early stages due to these upfront costs. As the project moves from the building to operating stage, returns start to improve as costs may go down significantly. Once the asset is fully up and running, it can provide a steady income stream, giving investors regular returns over time.

After a period of time, the asset reaches a point where its quality is at a 'poor' level. At the end of the 'Operate and Maintain' stage a decision would need to be made to either renew the asset - with another capital injection - or allow the asset to erode if it is no longer required.

Depending on the asset, investors will enter these investments either in the plan or build stage - these areas pose the greatest risk for an investor - however they also provide the greatest returns relative to the capital invested. When investments are invested at a later stage, the returns are not likely to be as high, however, the risk is significantly reduced, due to its maturity and predictability.

Because of this lifecycle, infrastructure assets are an appealing investment for long-term investors like AustralianSuper as they are likely to provide stable long-term returns.

## What is the regulator’s view on unlisted assets?

Unlisted assets are a well-established component of the investments made by superannuation funds on behalf of their members. Australian Prudential Regulation Authority (APRA), the prudential regulator for the superannuation industry, requires a sound investment governance framework in place to select, manage and monitor investments, including the appropriate monitoring and management of investment risk. APRA considers it important to give particular consideration to the inclusion of unlisted and illiquid assets in an asset allocation, given their unique characteristics.

While APRA does not prescribe specific valuation methodologies for unlisted assets, it provides guidelines to superannuation funds on the principles for valuing unlisted or illiquid assets. AustralianSuper’s Investment Valuation Framework is aligned with the requirements of APRA Prudential Standard SPS 530 – Investment Governance and Prudential Practice Guide SPG 531 – Valuation. Fund assets are also valued in accordance with approved accounting standards AASB 1056 ‘Superannuation Entities’, which requires that all assets shall be measured at fair value at each reporting date.

AustralianSuper adheres to the guidelines established by APRA for the valuation of unlisted assets.



## What is the valuation process?

AustralianSuper has well established policies and procedures for the valuation of internally managed directly held assets to ensure that their valuation is prepared on an equitable and consistent basis. AustralianSuper has a valuation framework that includes both a valuation policy and a valuation standard to ensure there is an appropriate process to value investment assets.

### Valuation process

The valuation process ensures that the basis of valuations is reasonable, transparent and consistent. Underpinning the process is the selection of independent valuers to be part of the Fund’s valuer panel. These valuers are chosen for their expertise and local knowledge and are rotated across assets at intervals of not more than three years. AustralianSuper’s internal review process ensures that the value of assets reflects current business and market conditions.

### Valuation frequency

Valuations are updated regularly to hold assets at fair value in the portfolio. The Fund adopts the most recent valuation for investment assets so that equity amongst members is maintained through the daily crediting rate process. The greater the exposure that an asset has in an investment option, the more frequently the asset is valued. This is based on the asset’s weight in the investment option with the largest exposure to the asset.

- Assets with higher weights are valued quarterly. About 90%, by value, of AustralianSuper’s internally managed directly held assets in property and infrastructure are valued quarterly.
- Assets with lower weights are valued semi-annually or annually as the value of these assets has less impact at a portfolio level.

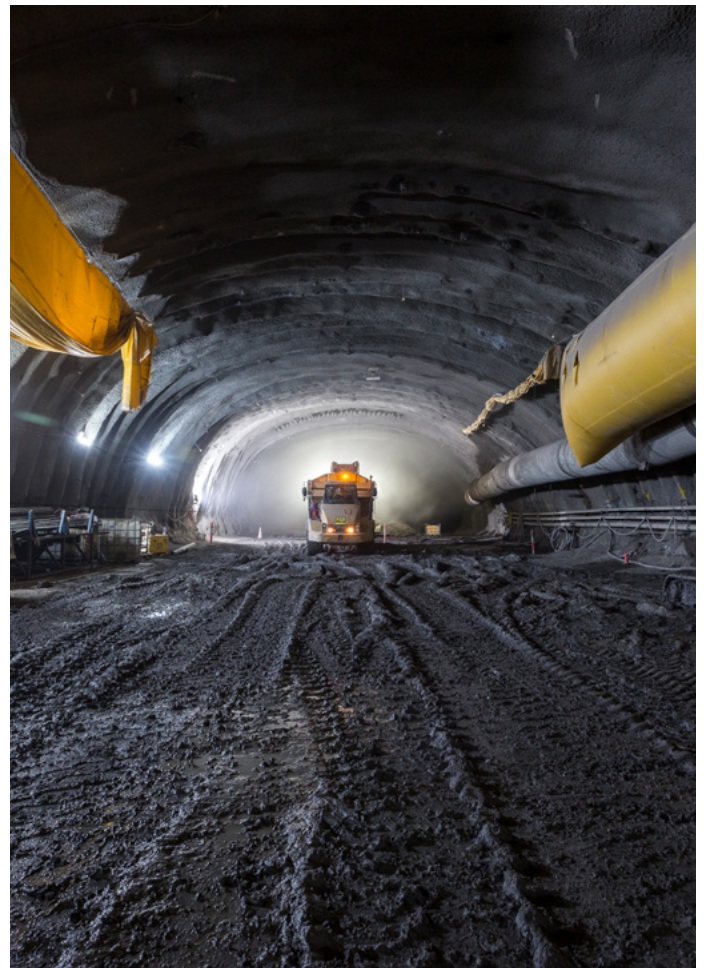
## Valuation methodology

Valuers use the valuation methodology that is most appropriate for the asset. The valuation will take into consideration the asset’s size, characteristics and domicile. Relevant assumptions such as the discount or capitalisation rates are determined by the valuer and adjusted to reflect the current consensus view of economic conditions and asset specific drivers. Asset specific inputs such as lease rates or tenant lists are provided directly from the investee companies as an input for the valuation.

### Valuation methodology examples:

Asset class	Example of valuation method
Private equity	Comparable transactions, discounted cash flow, capitalisation of revenue or income
Infrastructure	Discounted cash flow
Property	Capitalisation of income
Private credit	Discounted cash flow

Valuations of wholesale investment funds, (i.e not internally managed directly held assets) are determined by the fund manager. For property and infrastructure, these managers (e.g. IFM, ISPT and QIC) also use a panel of independent valuers to determine the value of individual assets held in their funds. These valuers are rotated on a regular basis.



WestConnex – NSW, Australia.

## Pricing factors

Economic conditions can have an impact on the valuations of unlisted assets. Despite these pressures, AustralianSuper believes these assets remain a valuable part of the overall portfolio. To understand this perspective, it is worth examining these pricing factors in greater detail.

### Market sentiment

The general attitude of investors towards the prospects of future returns in the markets can result in large swings in the perceived valuation and subsequently the price of listed securities. Unlisted assets are not as easily influenced by this market sentiment as listed assets because their valuations are less frequent and often based on net asset value. This means they are generally more stable over the long term due to their periodic valuations, and the fair values of unlisted assets are generally unlikely to fall by a similar extent to that reflected by price falls in the listed sector. While unlisted assets went through a devaluation cycle during the GFC, the COVID-19 downturn as well as in the current environment, it was nowhere near the levels seen in listed assets during major market downturns.

### Interest rates and inflation

Unlisted assets have seen modest performance in recent years due to increased interest rates and current poor operational conditions. These factors have exerted downward pressure on valuations across some private assets, especially among retail and office properties. However, infrastructure assets that have revenues linked to inflation such as regulated utilities and toll roads can benefit from rising costs or increases in economic activity. Monitoring the future path of interest rates and inflation will impact how unlisted assets are valued and their comparative performance relative to listed assets. Private credit investments are providing higher yielding alternatives to government and corporate bonds. Competitive returns can be obtained by providing borrowers with flexible capital and tailored solutions.

## Asset Highlight: Vantage Data Centers

AustralianSuper's investment in Vantage Data Centers has been significant, with a ~\$2.5 billion investment to acquire a significant minority stake in Vantage Data Centers EMEA, marking it as the largest infrastructure investment in Europe by AustralianSuper to date. This investment has provided AustralianSuper with access to a rapidly growing market that has delivered strong growth and returns in recent years.

Vantage Data Centers EMEA is one of the fastest growing hyperscale data centre platforms operating across Europe, the Middle East and Africa (EMEA). Data centres are physical facilities that house the computing infrastructure that IT systems require, including servers, data storage drives and network equipment.

AustralianSuper's investment supports Vantage's ambitious growth plans and enables the expansion and development of hyperscale data centres across EMEA to meet the growing demand. This demand is growing with the expansion of cloud usage across the globe. The ability to retain and build customer bases is imperative for scaling.

Being an unlisted asset, Vantage is less susceptible to market cycles and will likely provide more stable and long-term returns than listed counterparts. As long-term investors, this suits AustralianSuper's objectives and assists in diversifying the investment portfolio.

Overall, the investment in Vantage Data Centers aligns with AustralianSuper's purpose to help its members achieve their best financial position in retirement, leveraging the fund's size, scale, and direct investment capability.



## AustralianSuper's investment approach

AustralianSuper uses a One-Portfolio approach that:

- leverages the skills and insights of a multi-asset class platform to maximise investment outcomes for members
- enables the investment team to efficiently utilise resources, share insights and prioritise the most attractive investment strategies.

Within the One-Portfolio approach, AustralianSuper's investment team uses specialist funds and direct investment to access unlisted assets. These approaches provide three main benefits to deploying capital by:

- providing an appropriate investment allocation into multi-billion-dollar unlisted asset deals that may be too large to own in their entirety
- accessing large scale investments through syndicated or co-investment deals
- using internal investment capability to source, evaluate and implement new investment opportunities.

Infrastructure and property funds employ portfolio managers with significant experience and expertise in a particular market segment. Advantages of investing with these funds include access to their existing scale and the ability to diversify across sectors and geographic regions.

Examples of these investments include:

- Industry Superannuation Property Trust (ISPT) funds
  - QIC Property Fund
  - Industry Funds Management (IFM) infrastructure funds.

AustralianSuper invests in private equity through specialist funds managed by high quality private equity managers, while building strong relationships with those managers to co-invest and co-underwrite alongside them.

Direct investment requires a deep understanding of the market environment and local factors. AustralianSuper's program of internalising investment management and investing directly into unlisted assets has been effective in lowering costs and efficiently deploying capital.

Having a local presence and building strong relationships with investment partners promotes the origination and implementation of investment deals. AustralianSuper's global expansion with an investment presence in the UK and the US, provides further opportunities to diversify direct investment holdings across regions and seek the most attractive investment strategies in infrastructure, property, private equity and credit.

Several themes are shaping the investment opportunities that are available when investing in real assets. The table below lists these themes and examples of assets held in the portfolio as at 30 June 2024.

Theme	Portfolio Holding	Location	Description
Digitisation	Indara	Australia	Leading owner and operator of tower and rooftop telecommunication sites
	Vantage Data Centers	Europe, Middle East, Africa	Leading global provider of hyperscale data centres
Energy Transition	Generate Capital	United States	One of the largest owners and operators of behind-the-meter battery storage, community and rooftop solar, energy efficient retrofits, biogas facilities, electric buses and hydrogen-electric vehicle fleets in North America
Estates	Canada Water	London, UK	53-acre development in central London. Expected to have 3,000 net-zero homes, sustainable workplaces for approximately 20,000 workers and 12 acres of new open space.
Toll roads	WestConnex	NSW, Australia	Toll road project with a 70-kilometer network of roads.
Transport logistics	Moorebank Logistics Park	Sydney, Australia	State-of-the-art facility that connects Port Botany to the interstate rail network.

## Summary

AustralianSuper's investment in unlisted assets is strategically significant due to their long-term value, relative return stability and contribution to portfolio diversification. These factors help drive strong retirement outcomes for members. AustralianSuper's size and scale enables a direct investment capability facilitating

investments in attractive largescale opportunities at reasonable costs. The favourable contributions of unlisted assets to the risk and return profile of AustralianSuper's investment options over the long term supports our continued commitment to include these assets in the portfolio.

Investment returns aren't guaranteed. Past performance isn't a reliable indicator of future returns. The asset allocation and other investment information shown are current as at 30 June 2024. AustralianSuper may change asset allocations and investments from time to time to suit prevailing market circumstances.



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