News Release

Russell Investments

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New report heralds possible reversal of ‘triple treat’ for Australian investors; highlights keys to successful long-term investing in uncertain times

Russell Investments/ASX Long-term Investing Report reinforces the value of a globally diversified portfolio amid dangers of home-country bias

SYDNEY, 17 June, 2014 – Australian investors with a home-country bias and ‘set and forget’ mentality may not achieve their long-term investing goals compared to those who take an actively managed, globally diversified approach, according to the 16th edition of the Russell Investments/ASX Long-term Investing Report.

The report compares the performance of key domestic and global asset classes over 10- and 20-year periods. It is the only widely available report that provides Australian investors with a comprehensive and factual comparison between the long-term returns of Australian residential investment property and key domestic and global asset classes – such as shares, fixed-interest investments and diversified managed funds. The report also takes into account the impact of tax and gearing, as well as the benefits of investments held within the superannuation system.

One of the report’s key findings was that 2013 may have marked the beginning of a reversal in the Australian ‘triple treat’ of a resilient domestic share market, strong domestic currency and solid residential property market.

Over the course of 2013, the following market shifts occurred:

- Australian equities (+20%) underperformed unhedged global equities (+43%) by 23 percentage points. Not since 1997 have Australian equities underperformed unhedged global equities by such a margin.
- Australian equities (+20%) underperformed global equities (+29% on a hedged basis) by 9 percentage points.
- The Australian dollar fell 13% against the US dollar, from US$1.04 to US$0.90.

- Australian and global bond yields rose, dampening returns to only 2% and 2.3% respectively.

"The report shows Australian shares and the Australian dollar did not follow their respective historical long-term patterns in 2013, while rock-bottom government bond yields started to climb again, bucking the multi-decade trend of falling yields," said Pete Gunning, Chief Executive, Asia-Pacific at Russell Investments.

The report found that for the 10-year period:

- Australian shares were still the best performing asset class, returning 9.2% p.a. on a before-tax and after-fees basis.
- Hedged international shares were the next best performer at 8.2% p.a.; hedging added an additional 3.1% to international shares, which amounted to more than 30% of additional return.
- Australian residential investment property came in at sixth place, with a return of 6.1% p.a.

For the 20-year period:

- The changes that emerged in 2013 affected the results at the margin.
- Australian residential property led the gains, returning 9.9% p.a. on a before-tax and after-fees basis.
- Australian shares followed closely behind, with a return of 8.7% p.a.
- Hedged global shares returned 8.0% p.a.

The report provides investors with evidence of the benefits they can gain by diversifying across multiple assets. A comparison of the 10-year period results from this year's report to the previous year's report shows that some rankings among the nine key asset classes have changed. Most notably, Australian residential property dropped a few notches down the list, while unhedged global shares moved up a few places.

"Diversification is the most essential of all investment concepts," said Marcus Christoe, Senior Manager, Funds & Investment Products, ASX.

"As a growing percentage of the population moves toward retirement, there is an increasing need for a range of investment solutions that aim to provide for investors' varying needs. This report highlights the importance of considering the whole range of asset classes, as well as the importance of investing for the long term. ASX continues to support this by growing the types of products available for investors such as Australian Government Bonds (AGBs) and unlisted managed funds (mFunds)."

The report also considers the impact of tax, costs and borrowing on ultimate investment returns. The aim is to provide investors with an insight into how different investments have performed over the medium to long term, after tax and expenses.

The benefits of choosing the right investment structure are illustrated when comparing the differences in after-tax returns for different types of investors, even when in the same asset class.. For example, over 10 years, the value of investing in Australian equities via a superannuation vehicle rather than directly was an additional 2.5 percentage points in returns for high marginal tax rate investors.

What's next? Responding to the report findings

Mr Gunning highlighted the fact that Australian investors need to prepare for a low-return, high-volatility environment.

"After enjoying more than 10 years of stronger economic growth relative to most other developed markets, as well as remarkably strong rallies in the 18 months to December 2013, Australian investors now face the prospect of lower returns and greater uncertainty for 2014 and beyond," Gunning said.

Russell Investments produced a companion opinion publication, *Seeing beyond biases* to explore how investors could respond to these shifting trends so they can achieve their long-term investment goals.

The supplement first looks at three typical – and natural – responses that even the most rational investors tend to have when dealing with the unknown: they act based on fear, greed or indifference. These behavioural traits seem particularly pronounced in times of uncertainty and stress, when perceived threats distort our decision-making and may lead to inferior outcomes. Russell's supplement discusses alternative approaches investors can take to address these built-in biases, all with the goal of producing better long-term outcomes.

Mr Gunning says most investors have a natural home-market bias when making investment decisions; although Australia's market capitalisation representation in a global index is generally less than 3%, Australian investors typically have 30–50% invested in Australian equities.

While relying on companies that operate within the Australian market can be comforting – because of familiarity and because historically it has served domestic investors well – the potential reversal of the Australian 'triple treat' may mean investors are taking unrewarded risks going forward.

"The most efficient way to address this built-in bias is through the discipline of a globally diversified approach," Mr Gunning said. "The same goes for other behavioural traits that have the potential to negatively affect our investing decisions. At Russell, we believe that in order to maximise an investor's chance of meeting their objectives in a changing market environment,

portfolios should not be 'set and forget' based on fear, greed or indifference. Rather, portfolios should be managed adaptively using disciplined, rigorous and proven processes."

Copies of the historical Long-Term Investing Report and *Russell's supplementary opinion piece are available at* www.russell.com/au/long-term-investing-2014/.

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