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Now's not the time for super funds to sell assets

STEPHEN ANTHONY

By **STEPHEN ANTHONY**, CONTRIBUTOR
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Most superannuation fund members need not be tormented by how today's market ructions will affect their retirement savings. They are mostly years from retirement, so a market upswing is corrective and a sure bet. The only mistake this member could make is to switch to a cash option now or, worse, early redemption (except as a last resort). This just locks in a big loss that can't be undone.

Most default super fund members choosing the balanced option (that is, Australian Prudential Regulation Authority-regulated, top quintile) are invested in a portfolio with a 20 to 30-year investment horizon intended to generate significant long-term growth.

Default super options efficiently convert inflows from workplace defaults into strong risk-adjusted net returns over time achieved via portfolio diversification. This includes allocations to the full suite of unlisted investments in domestic and global investments, unlisted assets including property, infrastructure, debt, private equity, agriculture and renewables and so on.

The willingness of members and funds to see through the lens of the long-term investor has not only delivered superior risk-adjusted returns but also has resulted in their capture of a unique, lucrative value stream represented by:

• The use of scale and its associated benefits to reduce intermediation.

• Locking in the economic gains captured from holding interconnected portfolio assets within the same region.

• Capacity to overcome and exploit short-term asset stresses to create significant additional value.

This has been a hallmark of top-performing funds since the advent of compulsory superannuation. The idea is to allow working people to pool capital so they can invest beside a Warren Buffett in a diversified, scale fund that can also access unlisted investment opportunities and maximise the magic of compound interest. This type of risk-return trade-off was not previously available to mum and dad investors.

The approach has been tremendously successful in affording working people with stable work patterns the prospect of generating an adequate retirement income otherwise unavailable to them.

At the same time the default superannuation system has demonstrably helped to shore up foundations of the Australian economy by:

• Deepening the pool of savings, helping to lower the cost of borrowing for business and households.

• Deepening the stock of productive capital.

• Stimulating economic activity by supporting stronger capital expenditure levels and supporting productivity gains.

• Supporting significant and rising employment.

• Investing in technology, skills and start-ups.

• Providing a liquidity buffer to financial markets and the broader economy through counter-cyclic investment.

The default super system has certainly underpinned national saving and the current account, which through superannuation no longer seems to be a national vulnerability. The savings pool itself is supporting strategic investments across the economy in real assets such as infrastructure, IT, property, health and aged care, agriculture and renewables.

The default super system also has helped to protect our national sovereignty while keeping jobs at home. In times of financial turbulence, super funds with strong cash positions can help recapitalise Australian businesses (financial and non-financial) by decisive and speedy private placements. More broadly their long-term time horizon encourages counter-cyclic investing.

In Australia, during and after the global financial crisis, default superannuation provided the same institutional anchor. While households sold down their holdings of equities, super funds were buying.

To continue to invest in a way that limits market volatility and helps the Australian economy grow, trustees must have confidence in stable policy settings. A critical policy shift means funds have been tasked with ensuring members in dire financial need receive the financial support they need. This raises serious questions for trustees: will this be the beginning of rolling redemptions?

As a result, fund trustees must consider hoarding cash including selling assets at precisely the wrong moment in the cycle, in case there are further market shocks and the government opts to crack open super again.

In coming weeks, the Morrison government needs to shift from medical emergency management and job stabilisation and return to jobs recovery.

It is possible to enlist the vast superannuation sector to shoehorn the economic recovery. The federal government could hand institutional investors a shopping list of policy projects and ask who wants to be the long-term owner. This is true across energy, infrastructure and property including affordable housing, small and medium enterprise lending, private equity and strategic industry policy. Wherever counter-cyclical investment is needed and cannot be funded by government, institutional investors can and are able to fill the breach.

In the face of the pandemic, the longer-term growth of the default super sector can help support the broader economy and assist the aggressive recoupment of jobs.

The only limit on default super's participation as a strong partner is confidence in stable policy settings.

Stephen Anthony is chief economist at Industry Super Australia.