INVESTMENT UPDATE – 27 MARCH 2020

At NESS Super, we maintain the position that superannuation is a long-term investment and we encourage you to seek financial advice prior to switching investment options. This is especially true in times of high market uncertainty. If you make an investment switch at the wrong time, it can dramatically impact your final retirement balance.

During this time of turbulence, we want to be transparent with you about what is driving our returns. This is especially the case for our investment options that are seeing the largest movement in returns, which we want to talk to you about now.

NESS Super – Property Option

The NESS Super Property Option is invested wholly in listed property. The positive is that this option is highly liquid (meaning it is easy for investments in this option to be bought or sold). The negative is that because it is highly liquid, the economic impact of COVID-19 has been reflected a lot quicker in the rates of return than if it had been held in unlisted property.

NESS Super’s Implemented Investment Consultant writes:

“Some of the declines we are seeing in listed property can be attributed to concerns around debt levels and the ability to meet loan obligations during this downturn. There are certain property sectors that have been heavily impacted by COVID-19.

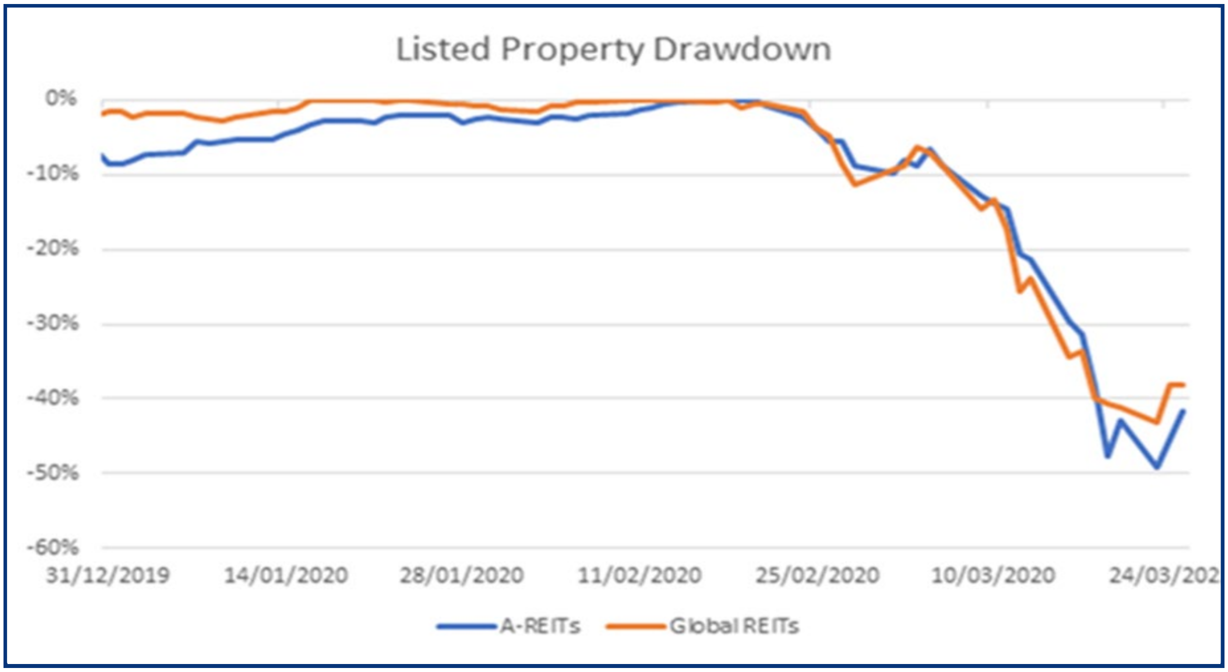
The most heavily impacted sectors are all vulnerable to social distancing and travel restrictions. Using the US market as an example, US Malls are down 60%, US Lodging down 56%, US Shopping Centres down 47%, US Health Care down 42% and US Net Lease down 41%.

The sectors which are doing better but are still down are those that are less directly affected by adverse impacts of the virus (data centres, industrial, storage, offices and residential). In other regions like Asia Pacific ex Japan, we are seeing better performance relative to the US likely due to a stabilisation in the number of Coronavirus cases reported in China.

Europe and the UK has performed generally in line with the index. In summary listed property is being hit worse than the general listed equity market due to its higher weighting to retail which is expected to take a material hit during the instigation of the COVID-19 containment measures.

Unlisted property assets will be feeling the same heat as unlisted markets, but the return pattern will be different in so far as the valuations are less frequent and there is not the same level of trading – which promotes additional volatility on the listed side.

It is also worth remembering that listed property indices rose by 21.2% (Global) and 19.6% (Australian) which exceeded the returns on unlisted assets in 2019. The NESS property option outperformed the median return by 3.3% in 2019 and was top quartile over the three years to 31 Dec 2019."



A key takeaway from this is that when the number of COVID-19 cases stabilises and when containment measures are relaxed there is every possibility that this option will begin to recover. Of course, the extent and length of time for recovery is difficult to predict with the current markets and is also dependent on how well COVID-19 is contained.

Australian Shares performance

In respect to NESS Super's Australian Shares option performance.

Global equity markets are all down significantly since the peaks at or around 20 February. Just for the month of March most equity markets are down around 20%. The Australian market is being hit harder than global equities for a few reasons.

A softer economy coming into this period of volatility, generally linkages with resources and China and a bigger weight to Banks (which are underperforming). More generally the market is smaller and more concentrated and thus has the potential to provide returns that are more volatile than the more diverse global markets.

Finally, the fall in the Australian dollar has dampened global equity falls when translated into A$. The falls for unhedged global equities have been -11.5% vs -18.9% for the month to date. The NESS Super Overseas Shares Option had roughly 75% of its equity exposure unhedged and therefore will have had some protection on the way down.

A key takeaway from this is that Australia is a smaller and more concentrated market, and when increased activity in China occurs and the Banks recover the performance of this option should strengthen.