

RICEWARNER

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Expected Investment Returns of Asset Classes 2017



Summary of Results

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1. Introduction

Each year Rice Warner surveys the leading asset consultants and other investment professionals in Australia to understand their expectations for returns (gross of fees and taxes) from the various asset classes. Their estimates are combined and analysed across a range of asset classes and economic indicators over the short and long term. This report is a summary of these estimates.

2. Key observations

Our observations based on the results of the survey are:

- Median long term return expectations fell across most domestic and international asset classes, other than emerging markets and private equity and alternatives.
- Participants continued to expect unhedged returns on international assets to outpace hedged returns, suggesting a negative outlook on the Australian dollar.
- Alternatives such as infrastructure, hedge funds and mortgage securities all enjoyed some improvement in their long-term return outlook.
- Median expected volatility for Australian Equities has increased materially since last year, however fixed interest, debt and cash securities experienced a marginal decrease in expected volatility.
- Long term volatility expectations for International Equities have remained steady since last year's survey.
- Median long term expectations for AWOTE and CPI remained flat.
- Long term median expected returns are higher than short term expected returns this year for all asset classes except Australian Direct Property. Generally, it appears that participants still have a bullish long term outlook and a slightly more modest outlook over the short term.
- Median short term expected returns on Australian equities edged higher. The spread between the highest and the lowest expected returns narrowed dramatically, reflecting of a more positive outlook on the domestic front. No participants expected negative returns from domestic equities this coming year.
- Short term expected cash returns remained steady from last year, but expectations for both AWOTE and CPI crept higher.
- Overall, the range of short term expected returns remained relatively stable with some notable exceptions; namely lowered expectations in Australian Equities, Private Equity, Infrastructure and Hedge Funds, and increases in International Property and Emerging Market Equity.

Please let us know if you would like any more information.

3. Survey Updates

We have updated the asset classes in our survey, to reflect the ever-growing investment universe and the availability of more granular asset class data.

The most significant change was the split of fixed interest into three new asset categories:

- Government Bonds
- Investment Grade Bonds
- Sub-Investment Grade Bonds.

This applies to both domestic (Australian) and International bonds.

The structure of property assets was also modified to include Australian Listed Property, Australian Direct Property and International Property.

Table 1. List of surveyed asset classes 2016 v 2017

2017	2016
Australian Equity	Australian Equity
International Equity (Unhedged)	International Equity (Unhedged)
International Equity (Hedged)	International Equity (Hedged)
Australian Listed Property	Listed Property
Australian Direct Property	Direct Property
International Property	International Property
Australian Government bonds	Australian Fixed Interest
Australian Investment Grade bonds	
Australian Sub-Investment Grade bonds	
International Government bonds (Hedged)	International Bonds
International Investment Grade bonds (Hedged)	
International Sub-Investment Grade bonds (Hedged)	
Inflation-linked Bonds (Hedged)	Inflation-linked Bonds
Mortgage/Loans	Mortgage/Loans
High yield debt/credit (Hedged)	High Yield Debt
Cash	Cash
Emerging Markets Equity (Unhedged)	Emerging Markets Equity
Private Equity (Unhedged)	Private Equity
Infrastructure (Unhedged)	Infrastructure
Hedge Funds (Unhedged)	Hedge Funds
90 days Bank Bill	10 Year Government Bonds
AWOTE	AWOTE
CPI	CPI

4. Long Term Expectations

A summary of the results is contained in the tables below. Table 2 summarises the long term expected annual returns gross of fees and tax (over the next 10 years).

Table 2. Survey results of Long Term Expected Annual Return (over the next 10 years)

Asset Class - 2017	Count	Average	Median	Lowest	Highest
		(%)			
Australian Equity	12	7.62	7.60	6.20	9.00
International Equity (Unhedged)	11	7.01	7.20	2.41	9.00
International Equity (Hedged)	11	6.91	7.30	1.96	9.00
Australian Listed Property	8	6.49	6.94	2.50	8.00
Australian Direct Property	9	6.81	6.30	5.77	8.25
International Property	9	6.45	6.90	2.50	8.00
Australian Government bonds	11	3.14	2.77	2.00	5.90
Australian Investment Grade bonds	8	3.24	3.30	2.60	3.77
Australian Sub-Investment Grade bonds	3	4.89	5.00	4.40	5.27
International Government bonds (Hedged)	11	2.95	2.60	1.34	6.00
International Investment Grade bonds (Hedged)	10	3.55	3.35	2.09	6.70
International Sub-Investment Grade bonds (Hedged)	6	5.50	5.26	4.40	7.00
Inflation-linked Bonds (Hedged)	9	3.18	3.00	1.33	5.90
Mortgage/Loans	6	5.83	5.49	4.70	7.50
High yield debt/credit (Hedged)	9	5.30	5.00	2.10	8.00
Cash	11	3.31	3.20	1.87	5.00
Emerging Markets Equity (Unhedged)	11	8.64	9.52	3.89	10.00
Private Equity (Unhedged)	10	9.19	9.40	6.70	12.00
Infrastructure (Unhedged)	10	7.66	7.65	6.43	9.25
Hedge Funds (Unhedged)	8	6.28	6.34	4.90	8.00
90 days Bank Bill	6	2.90	2.87	2.17	3.50
AWOTE	5	3.30	3.23	2.87	4.00
CPI	8	2.36	2.50	2.00	2.50

Table 3 summarises the volatility of returns (expressed as the standard deviation of annual returns).

Table 3. Long Term Return Volatility (standard deviation of annual returns over 10 years)

Asset Class - 2017	Count	Average	Median	Lowest	Highest
		(%)			
Australian Equity	12	17.26	17.91	13.00	20.00
International Equity (Unhedged)	11	15.94	16.00	13.00	20.00
International Equity (Hedged)	11	16.52	17.00	14.00	18.00
Australian Listed Property	8	16.72	17.37	13.00	19.70
Australian Direct Property	9	10.29	10.00	6.25	14.00
International Property	9	16.11	17.00	10.00	20.20
Australian Government bonds	11	4.94	4.50	2.20	8.50
Australian Investment Grade bonds	8	3.93	4.10	2.50	5.00
Australian Sub-Investment Grade bonds	3	7.83	7.00	6.50	10.00
International Government bonds (Hedged)	11	4.77	3.86	3.25	8.50
International Investment Grade bonds (Hedged)	10	5.28	5.60	2.40	8.50
International Sub-Investment Grade bonds (Hedged)	6	10.00	10.00	6.50	15.30
Inflation-linked Bonds (Hedged)	9	5.08	4.90	3.03	7.00
Mortgage/Loans	6	6.90	7.70	5.00	8.00
High yield debt/credit (Hedged)	9	10.19	10.00	6.50	15.30
Cash	11	1.19	1.00	0.50	3.90
Emerging Markets Equity (Unhedged)	11	21.80	22.00	18.00	25.00
Private Equity (Unhedged)	10	21.07	22.00	12.00	30.00
Infrastructure (Unhedged)	10	12.99	12.60	8.25	19.80
Hedge Funds (Unhedged)	8	9.93	10.00	7.00	13.00
90 days Bank Bill	6	1.43	1.00	0.50	3.80
AWOTE	5	2.10	2.50	0.25	3.00
CPI	8	1.85	1.85	0.25	4.00

Graph 1 shows the combination of average return and volatility expectations.

Graph 1. Summary of Long Term Expected Annual Return vs Volatility (over the next 10 years)

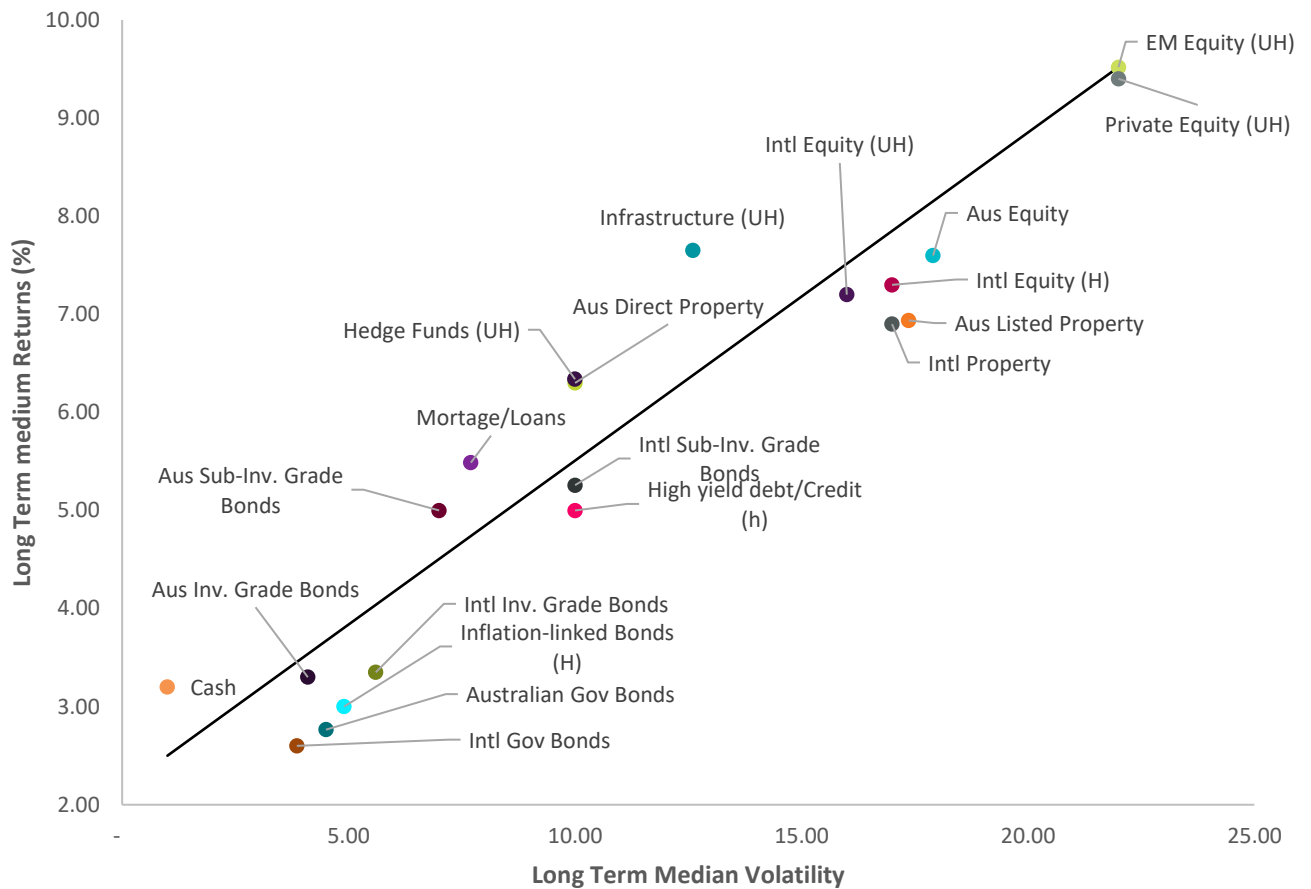


Table 4 summarises the range of results that were received across asset classes.

Table 4. Range of Expected Long Term Returns by year

Asset Class - 2017	2017		
	High	Low	Range
	(%)		
Australian Equity	9.0	6.2	2.8
International Equity (Unhedged)	9.0	2.4	6.6
International Equity (Hedged)	9.0	2.0	7.0
Australian Listed Property	8.0	2.5	5.5
Australian Direct Property	8.3	5.8	2.5
International Property	8.0	2.5	5.5
Australian Government bonds	5.9	2.0	3.9
Australian Investment Grade bonds	3.8	2.6	1.2
Australian Sub-Investment Grade bonds	5.3	4.4	0.9
International Government bonds (Hedged)	6.0	1.3	4.7

Asset Class - 2017	2017		
	High	Low	Range
	(%)		
International Investment Grade bonds (Hedged)	6.7	2.1	4.6
International Sub-Investment Grade bonds (Hedged)	7.0	4.4	2.6
Inflation-linked Bonds (Hedged)	5.9	1.3	4.6
Mortgage/Loans	7.5	4.7	2.8
High yield debt/credit (Hedged)	8.0	2.1	5.9
Cash	5.0	1.9	3.1
Emerging Markets Equity (Unhedged)	10.0	3.9	6.1
Private Equity (Unhedged)	12.0	6.7	5.3
Infrastructure (Unhedged)	9.3	6.4	2.8
Hedge Funds (Unhedged)	8.0	4.9	3.1
90 days Bank Bill	3.5	2.2	1.3
AWOTE	4.0	2.9	1.1
CPI	2.5	2.0	0.5

Table 5 compares the survey results of Long term expected returns with the results of previous surveys.

Table 5. Comparison of Long Term Expected Returns with previous survey results

Asset Class	Median Response			Average Response		
	2015	2016	2017	2015	2016	2017
	(%)					
Australian equities	7.8	8.2	7.5	8.1	7.9	6.9
International equities (hedged)	7.2	7.7	6.8	7.4	7.8	6.1
International equities (unhedged)	8.2	8.0	6.9	7.7	7.6	6.3%
Listed property	7.0	6.6	6.7	6.6	6.8	5.7
Direct property	7.5	6.6	6.3	7.0	6.4	6.8
Australian Fixed Interest	2.8	2.9	2.6	2.6	3.0	2.7
International Fixed Interest (Hedged)	2.6	2.8	2.6	2.1	2.9	2.5
Cash	3.5	3.3	2.7	3.3	3.1	2.9

Table 6 compares the survey results for expected volatility of returns with the results of previous surveys.

Table 6. Comparison of Return Volatility expectations with previous survey results

Asset Class	Median Response			Average Response		
	2015	2016	2017	2015	2016	2017
	(%)					
Australian Equity	18.0	17.0	17.9	17.4	16.6	17.3
International Equity (Hedged)	17.1	16.6	17.0	16.6	16.2	16.5
International Equity (Unhedged)	16.0	15.5	16.0	15.6	15.2	15.9
Australian Listed Property	18.0	15.9	17.4	16.7	15.8	16.7
Australian Direct Property	10.0	10.0	10.0	10.2	10.5	10.3
Australian Government bonds	5.0	4.8	4.5	4.5	5.1	4.9
International Government bonds (Hedged)	5.5	4.0	3.9	5.3	4.8	4.8
Cash	1.2	1.0	1.0	1.4	1.6	1.2

5. Short Term Expectations

Table 7 summarises the survey results for Short term expected returns (one year).

Table 7. Survey results of Short Term Expected Return (in the next year)

Asset Class	Number of Responses	Average	Median	Lowest	Highest
		(%)			
Australian Equity	10	7.16	7.55	5.30	8.00
International Equity (Unhedged)	10	6.55	6.75	0.13	10.77
International Equity (Hedged)	9	6.22	6.75	0.86	10.29
Australian Listed Property	7	3.76	5.70	-4.07	7.10
Australian Direct Property	7	6.52	6.65	4.80	8.26
International Property	7	4.99	6.10	-2.00	6.90
Australian Government bonds	9	1.77	1.80	-0.08	2.60
Australian Investment Grade bonds	7	2.21	1.80	1.50	3.50
Australian Sub-Investment Grade bonds	3	2.57	4.00	-0.70	4.40
International Government bonds (Hedged)	9	1.58	1.50	0.37	2.80
International Investment Grade bonds	9	2.50	2.50	1.60	3.90
International Sub-Investment Grade bonds	6	3.74	4.40	-0.70	5.75
Inflation-linked Bonds (Hedged)	7	3.17	2.90	2.10	5.79
Mortgage/Loans	5	4.48	4.00	2.50	6.80
High yield debt/credit (Hedged)	8	3.79	4.45	-0.70	6.25
Cash	9	1.82	1.80	1.38	2.75
Emerging Markets Equity (Unhedged)	9	9.78	8.10	1.86	27.55
Private Equity (Unhedged)	8	8.56	8.53	5.40	13.16
Infrastructure (Unhedged)	8	7.27	7.37	6.00	8.60
Hedge Funds (Unhedged)	6	4.89	5.09	3.70	5.75
90 days Bank Bill	5	1.89	1.80	1.68	2.25
AWOTE	4	3.10	3.10	2.38	3.80
CPI	8	2.15	2.10	1.82	2.50