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Super funds turn cautious on market correction fears

Rose Powell

The investment teams at Australia's leading superannuation funds are beginning to adopt defensive investment strategies as they grow increasingly wary of a possible market correction in the next two years.

A survey by AXA Investment Managers among almost 90 investment staff at major super funds has revealed about half are anticipating a correction while others expect returns from global and Australian equities to grow.

AXA Global Investment Manager Tim Gardener (left) with Australia/New Zealand director Craig Hurt. Photo: James Alcock

"This is very rare. It's the first time I can remember such an even split," AXA's global head of institutional client strategy Tim Gardner said. "Usually the split is more 80 to 20 per cent, so this shows the level of indecision among investors.

This year, the split showed only 54 per cent of investors expected global equity markets to be higher in two years, and Australian equity markets had 52 per cent expecting higher returns.

A survey of almost 90 investment staff at major super funds has revealed about half are anticipating a correction in the next two years. Photo: Reuters

Mr Gardner attributed the indecision to the ongoing performance of the equity markets despite geopolitical concerns in the Middle East and Europe, China's slowing growth and commodity pricing wobbles, underscored by the knowledge it can't go on forever.

"This level of indecision is unusual among a group of professional investors."

AXA's director of Australia and New Zealand Craig Hurt said the low-growth, low interest rate environment had put investors on edge.

"There is a general fear among the big investors that a correction must be due, but we don't know when it will happen or the shape of it."

Mr Hurt said this tension was causing investors to explore ways to maintain their equity returns while introducing a defensive element into their portfolios.

After a series of roundtable events, Mr Hurt and Mr Gardner said investment staff at Australian superannuation funds would be making two key changes, and wished they could make more.

The first of these changes is tweaking the make up of their fixed income allocation. While fixed income assets rarely make up more than 15 per cent of Australian super funds allocations, Mr Hurt said many would be transitioning their investments from cash to global bonds, completely bypassing Australian bonds.

The second change will be shifting some equity exposure into other investments.

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Australian superannuation funds have relatively high exposure to equities, with AXA putting the number at around 60 to 70 per cent. But booming property markets and no discernible pick-up in infrastructure investment offer limited appeal for yield chasing investing teams.

Mr Gardner said several had decided to shift some of their equity allocation into diversified growth funds, for both the safety of diversification but also for political reasons.

"The biggest handicap for Australian investors for super funds is the peer group comparisons. These stop the investors from making bold decisions and they instead are more likely to hug a narrow corridor of asset allocation."

Mr Gardner added the decision to invest in diversified funds meant investment staff could push the impact of that failed risk further away from themselves.

"Many [superannuation investment staff] have genuinely innovative strategies but they say they can't do what they want because of these comparisons and that these funds can help by transferring the risk one layer down."