

INTRODUCTION TO ASSET CLASSES



An asset is an item of value owned by an individual or company. Investment assets are divided into classes according to their risk and return characteristics. The main asset classes are cash, fixed interest, property and shares. Superannuation funds typically offer a range of investment options that hold different proportions of each asset class. In this way, super funds can usually provide a suitable investment option for all types of investment needs – from low-risk strategies with modest returns to aggressive strategies which may generate high returns but are also volatile.

Cash

Cash is typically defined as short-term fixed interest securities with a maturity date of less than one year. Cash investments offer a low level of risk, but are likely to provide the lowest return of all asset classes over the long term.

Fixed interest

Fixed interest investments are monies invested in debt securities issued by governments, banks or corporations. Fixed interest securities typically pay interest at specified dates and repay the principal amount at maturity. Fixed interest securities typically trade in secondary markets. Tradeable fixed securities that are priced daily show some volatility but of a lesser magnitude than property or shares.

Property

Property trusts and managed property funds invest in commercial, retail, industrial, hotel and residential real estate. Property investments offer returns based on property valuations and a rental income stream. Property trusts can either be listed (ie a security tradeable on a stock exchange) or unlisted. Property returns are cyclical and, relative to fixed interest and cash, property investments have a higher potential return and also carry a higher risk of negative returns over the shorter term. Note: Direct or unlisted property investments are less liquid than trusts which trade on a stock exchange. In some market environments, it may not be possible to redeem from direct property on demand.

contact us

email contactaon@pillar.com.au
phone 1300 880 588
fax 1300 267 582
mail PO Box 1949
Wollongong NSW 2500

Shares

Shares represent part ownership of a company. Owning shares can provide both capital growth and income in the form of dividends. Shares that are 'listed' or traded on a stock exchange fluctuate in price whenever there is a trade. The price can move considerably and frequently over the course of a day. Share investments offer a high level of risk and high potential return over the long term compared to cash, fixed interest or property.

Alternative assets

Alternative assets include market neutral funds, hedge funds, private equity, commodities and infrastructure. Hedge funds use specialist investment strategies that may include shorting, deal arbitrage, exploiting pricing discrepancies etc. Private equity refers to investments made in companies not listed on a stock exchange. Infrastructure investments include utilities and other essential services such as transportation, water distribution and oil pipelines. Alternative assets would be expected to have a pattern of returns that differs from traditional assets and thus they provide diversification. Some alternative assets potentially provide relatively stable returns across economic and investment market cycles. Some alternative investments are unlisted and hence are less liquid than listed investments.

Defensive and growth assets

Asset classes are broadly divided into defensive and growth assets.

Defensive assets include cash, fixed interest investments and some alternative investments. They are called defensive because there is low risk of capital loss and a high proportion of their returns come from income (eg interest payments).

Growth assets include shares and property which are expected to generate higher capital growth over the long term than defensive assets. They may also provide some income in the form of dividends from shares and rent from property but, typically, this is a smaller proportion of the total return over the long term.

Over the long term, growth assets have generally provided a higher return than defensive assets, but with greater volatility of returns. This potential for producing higher returns can make a big difference over the long term and that difference can be important whether saving for retirement in a superannuation strategy or funding retirement living through an allocated pension investment.

The weak performance of growth assets over the ten years to 31 December 2008 reflects the turmoil stemming from the global financial crisis of 2008 which led to large declines of growth assets in that year.

Despite the understandable panic experienced by many investors during the global financial crisis, history shows that patient investors may reap substantial rewards from investing in shares and property over the long term. A financial adviser can assist you in determining an appropriate mix of growth and defensive assets for your circumstances, time horizon and financial objectives. If you do not have an adviser but would like to be put in touch with one, email us or call us on **1300 880 588**.

aonmastertrust.com.au

The information in this factsheet is general in nature. Your personal objectives, financial situation or needs were not taken into account when preparing this information. You may want to seek independent advice before making any decisions about your super.

This factsheet was prepared by Aon Consulting Pty Limited (ABN 48 002 288 646, AFSL 236667) and issued by Aon Superannuation Pty Limited (ABN 83 057 982 822, AFSL 237465) as trustee for the Aon Master Trust (ABN 68 964 712 340).

© 2010 Aon Consulting Pty Limited.

AONAMT133 0810