

INVESTMENT UPDATE SEPTEMBER QUARTER 2018

This quarterly investment report provides an update on financial markets and the performance of the Fund over the past three months.

Market Update

- » Australian shares were stronger over the period. The S&P/ASX 200 closed September at 6,208 points. The energy sector was a top performer on the back of a rising oil price.
- » Global Shares made strong gains in the third quarter, benefiting from another round of positive US earning results. The MSCI World ex Australia rose 7.35% over the period with Energy topping the table.
- » Emerging markets had outflows of US\$12.6bn over the quarter. Outside of Japan, most Asian markets saw downwards earnings revisions.

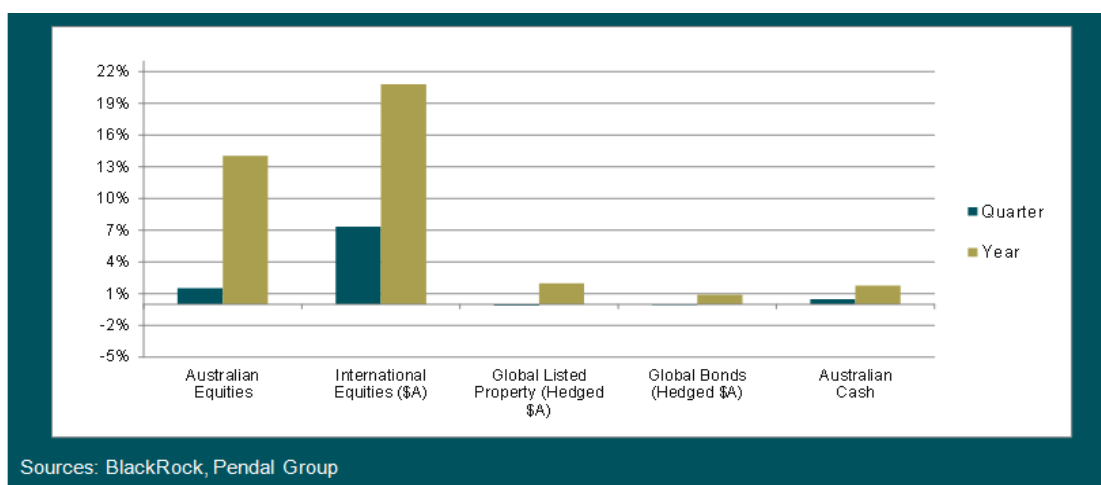
Chart 1: AP x J Earnings Estimate Revisions



Source: IBES, Datastream. Note: EPS figures are normalized, starting at 100 on base date Feb 2017 for ease of comparison. APxJ regions earnings revisions is in US \$.

- » Rising US rates have led to devaluations of emerging market currencies and upward pressure on emerging market bond yields. The net result was a flat quarter across most bond market indices.
- » The AUD depreciated by 2.4% against the USD over the quarter. This is a continuation of a strong year for the greenback, which has now risen by over 5% on a trade-weighted basis in 2018.

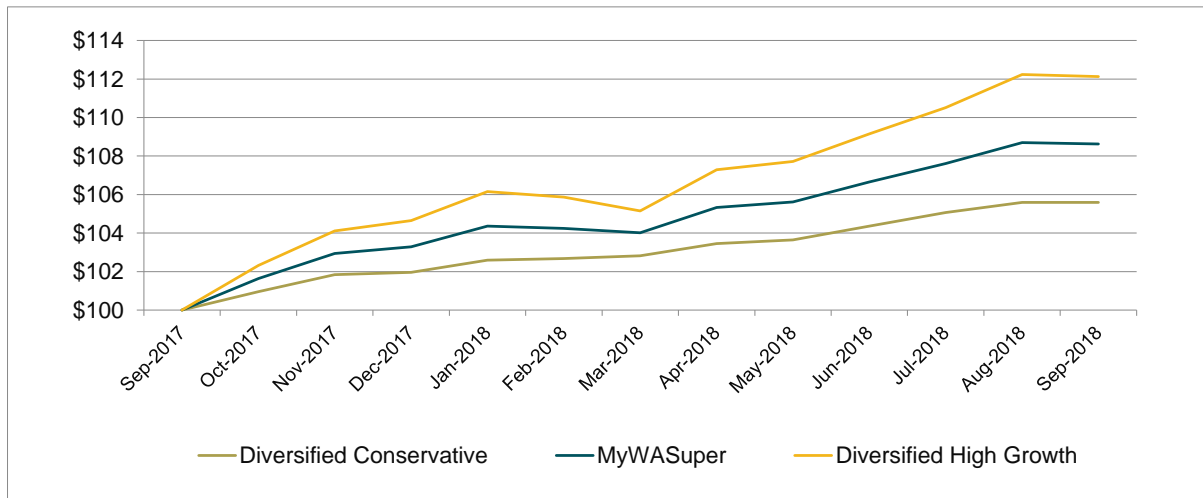
Chart 2: Asset Class Index Performance – Quarter and Year to September 2018



WHAT'S BEEN HAPPENING IN THE MARKETS?	WHAT HAS THE IMPACT BEEN?	HOW HAS THIS AFFECTED WA SUPER?
<p>Trade Tensions: Trade tensions continue to raise concerns for the global economic outlook. To date, the Trump administration has announced its intention to impose 25% tariffs on \$US267 billion worth of Chinese imports to the US. By August, tariffs on US\$50bn of Chinese goods kicked in. China responded with retaliatory tariffs on \$60bn worth of purchases from the US.</p> <p>With the EU, Trump announced in March that tariffs would be imposed in response to its 10% tariff on U.S. autos. On June 22, the EU imposed tariffs on \$3.2bn worth of American imports.</p> <p>Canada and Mexico, as the second and fourth largest source of U.S. steel imports, were not exempt from tariffs. In response, Mexico slapped tariffs on \$3bn of US goods and Canada imposed tariffs on \$12.5bn of US imports.</p>	<p>The upsurge in protectionism could potentially slow trade growth. As foreign countries retaliate, consumer goods that use raw materials in the U.S. such as steel and aluminium are likely to spike in price. Lower business sentiment is also reflected in European autos and manufactured goods as well as investments in companies having exposure to China.</p> <p>In response to the tariffs, China unveiled an easing policy package to boost domestic demand following its cancellation of trade talks with the US. Chinese State Councils provided guidelines to support consumer spending, while policy actions have stepped up to support infrastructure investment.</p>	<p>Despite the trade tension, WA Super's Global Equities portfolio performed well over the quarter, gaining 5.23%. Active manager's stock selections paid off, and depreciation of the Greenback against the Aussie dollar also contributed to the performance.</p> <p>Our portfolios are well positioned due to both sector and geographic diversification. The design of our portfolios should result in a less volatile return profile relative to the broader market.</p>
<p>Fed Monetary Policy: The Federal Reserve raised the key US interest rate for the third time this year to a range of 2.00% to 2.25% and signalled one more hike in 2018, most likely in December.</p> <p>Australian economic conditions remain positive, marked by strong export growth and steady consumption. While housing prices continue to moderate, the Reserve Bank left the cash rate unchanged to support the economy and to help achieve inflation targets.</p>	<p>While globally bond yields increased over the quarter, US companies continue to benefit from government spending and tax reforms. Emerging markets remain vulnerable to rising US interest rates and depreciating currencies, which increase their US dollar debt burdens.</p> <p>With domestic borrowers potentially facing higher funding costs, the depreciation of Aussie dollar against the Greenback will reduce the attractiveness of Australian investments from foreign investors, dampening the economic outlook.</p>	<p>In designing our Fixed Income portfolios, we have considered a range of scenarios. Our Fixed Interest portfolio is designed to be robust in different economic environments. Despite the headwinds, WA Super's Bond portfolio returned 0.21% over the quarter.</p> <p>Our Real Assets portfolio is also affected by interest rate movements. Listed property and infrastructure securities behave similarly to bonds, decreasing in value as interest rates rise while unlisted securities react more slowly to interest rate movements. This pattern was apparent in September, when our listed Real Asset portfolio lost ground while our unlisted assets posted a gain for the month.</p>

Fund Performance

Chart 3: WA Super Diversified Investment Options – Growth of \$100¹



Source: WA Super

The MyWASuper option and the other diversified options are pre-mixed investment options where WA Super has chosen the asset allocation based on the return objective and appetite for risk. These options are automatically rebalanced and regularly reviewed.

- » The Diversified Conservative option (5.60%) has delivered the lowest return over the last year due to its higher allocation to defensive assets.
- » The MyWASuper option, with its balanced allocation to growth and defensive assets, was a positive performer for the past year (8.63%). This option had a positive return of 1.85% for the quarter
- » The Diversified High Growth option (12.13%) led the other diversified options over the last year due to its higher exposure to growth assets.
- » All of the Diversified Options have exceeded their CPI-linked return targets over the past year.

The information provided is of general nature only. It has not been prepared taking into account your particular investment objectives, financial situation and particular needs. You should assess whether any advice is appropriate to your individual investment objectives, financial situation and particular needs before making any decision. You should also consider seeking the assistance of a professional adviser. Investment markets can fall as well as rise, so you shouldn't rely on past performances as a guarantee of what future performance may be.

¹ September returns, and therefore all return figures quoted in this report, are estimates only.