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### Editorial

As we near the end of the year, I thought I'd share my biggest lessons from 2025:

#### **1. Good companies don't necessarily make good investments**

You can't go wrong investing in good companies, right? It turns out, you can.

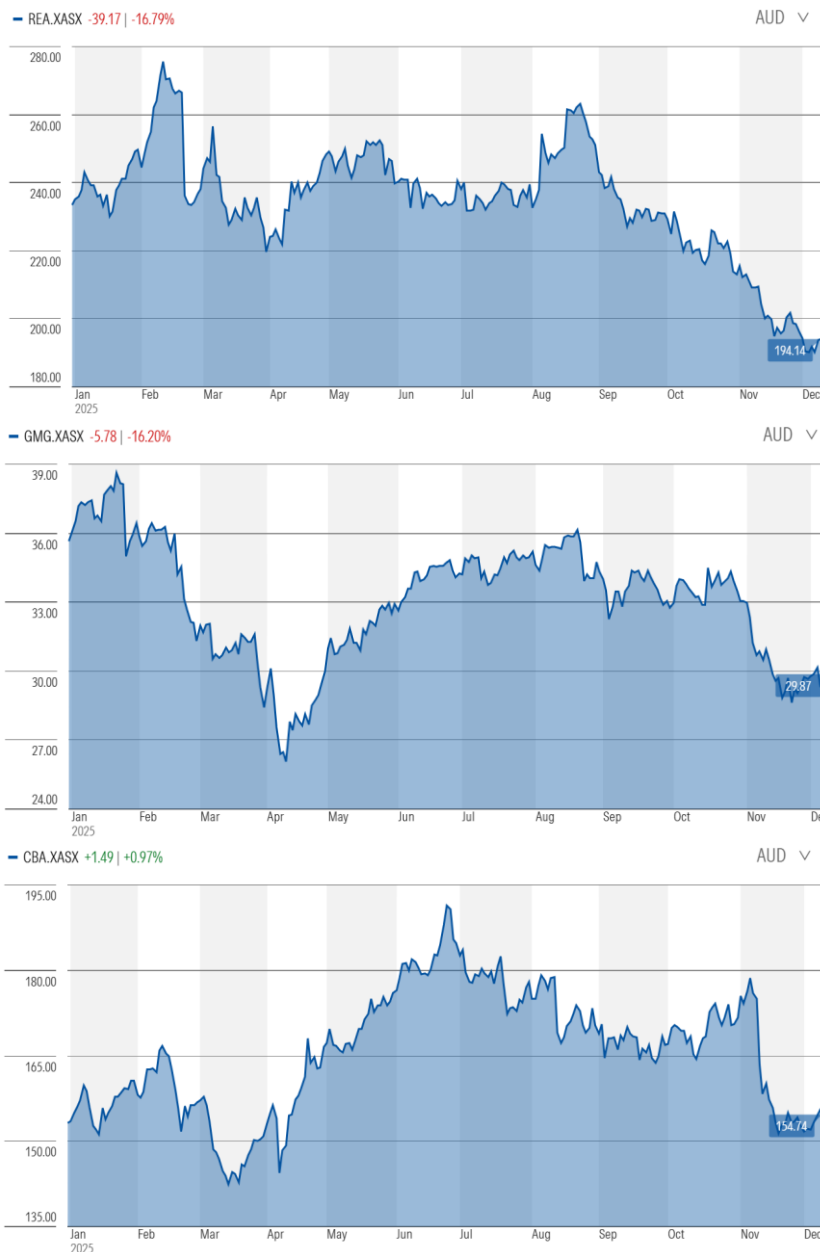
Globally, so-called quality stocks - characterised by high return on equity, stable earnings growth and low debt levels - have had one of their worst relative declines ever in developed markets, trailing the broader world market by almost 10% over the past year. In emerging markets, it's been the worst-ever year for quality stocks on a relative basis, lagging the broad index by 17% over the past year.

Australia has witnessed some of the carnage in quality stocks. The likes of REA, Goodman Group, and CBA have badly trailed the broader market. [see charts, next page]

The lesson? Good companies don't necessarily make good investments. As for the reason why, let's move to our next lesson.

#### **2. Valuation matters**

What the three Aussie blue chips have in common is that all of them were exorbitantly priced at the start of the year and REA and CBA arguably remain so.



Source: Morningstar

[In January this year](#), I argued that a rotation out of ASX banks into miners might be imminent, and mining outperformance versus banks could last for a long period. Many readers objected, suggesting quality banks like CBA would continue to perform and were worth holding onto.

Since then, the rotation into resource companies has begun.

From its high in late June, CBA's share price has fallen 20%, bringing the company officially into bear market territory. Its price-to-earnings ratio has dropped from 28x to 24x, yet it remains the most expensive developed market bank in the world.

Valuation matters – always.

### 3. ETFs are creating market distortions

There's been a long debate about whether ETFs are distorting the market. The price action in stocks such as CBA and the Magnificent Seven is intensifying that debate.

Legendary UK investor Terry Smith has no doubt that ETFs are influencing markets to a large degree:

"The effects are profound. More than 50% of assets are now invested through index funds, which are not actually passive; they are a momentum strategy [investing in assets with the best recent performance]. These funds cause significant distortions because they invest in companies in proportion to their market capitalization, regardless of their quality or valuation. Added to this is the impact of so-called active managers who copy the indices to preserve their careers. The result is a series of major distortions..."

I tend to agree. How it plays out from here, though, is anyone's guess.

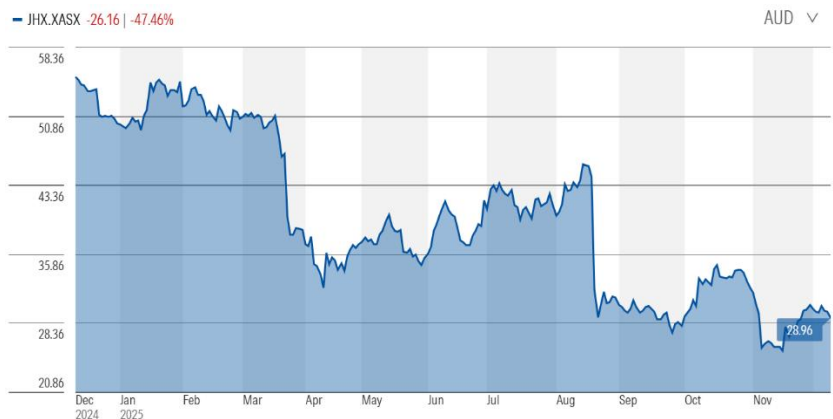
#### 4. Bad management can wreck a great company

I give you exhibit A: James Hardie.

Warren Buffett once advocated buying good businesses that “your idiot nephew could run.” In other words, the business mattered more than management.

I’m not so sure. In July, James Hardie bought Azek, a US-based manufacturer of outdoor decking and building products, for \$8.4 billion. Two problems: it paid a pretty penny and used mostly debt to fund the purchase instead of its then expensively priced stock.

James Hardie shares are down 48% year-to-date, and the question now is whether management has temporarily or permanently damaged the company.



Source: Morningstar

#### 5. Dinosaurs die

Nowadays, if companies don’t innovate, they die.

In Australia, ANZ underinvested in technology for a decade and its earnings and share price largely went nowhere. A new CEO has come in to fix this, and the market is optimistic about it. Either way, it’s going to be a long haul for investors.

In the US, payment processing giant Fiserv was the bluest of blue chips, having grown earnings by 10% per annum for several decades.

Recently, a new CEO admitted that the previous CEO had underinvested in its core banking processing platform. That led to downgraded earnings expectations and forecasts of higher investment, resulting in lower margins. The market is now worried that Fiserv technology has fallen well behind newer payment processing companies like Stripe and Block. And it’s subsequently punished Fiserv’s shares, which are down 68% this year.



Source: Morningstar

## 6. Capital flows to entrepreneurs and innovation...

You may not be a fan of Donald Trump or other aspects of the US (I'm not the biggest fan of their culture) but you've got to hand it to them: they encourage entrepreneurs and innovation. And that's created enormous wealth for the country this century.

It goes to show that money will flow to countries and areas, such as San Francisco, that help rather than hurt businesses.

It's a lesson for the rest of the world.

## 7. ... meanwhile, in Australia

That includes Australia.

Around \$14 trillion of our \$18 trillion of this country's wealth is tied up in two sectors: super and housing. Both are largely unproductive and are crowding out investments in more productive areas. Is it any wonder our economy isn't growing in per capita terms?

The sad state of affairs is captured in the this chart (right).

## 8. Don't fight interest rates

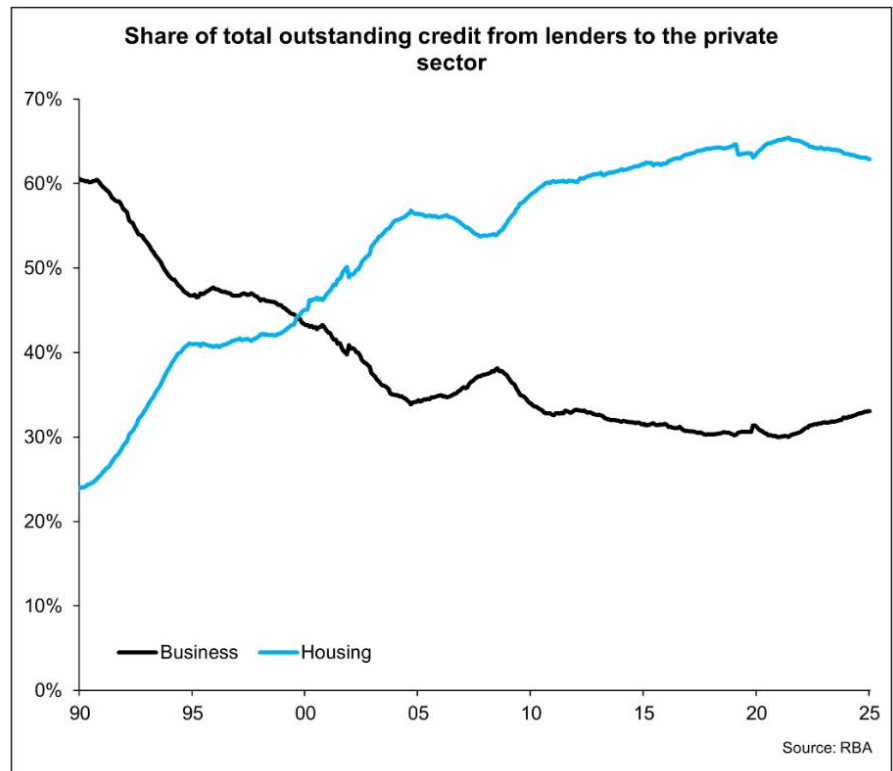
When interest rates fall, it puts more money in people's pockets as they fork out less to service debt. That impacts spending and has a ricochet effect across the economy. And it's usually positive for company profits and their share prices.

The lesson: when interest rates fall, the share market usually does well.

## 9. Bull markets always run longer than you think

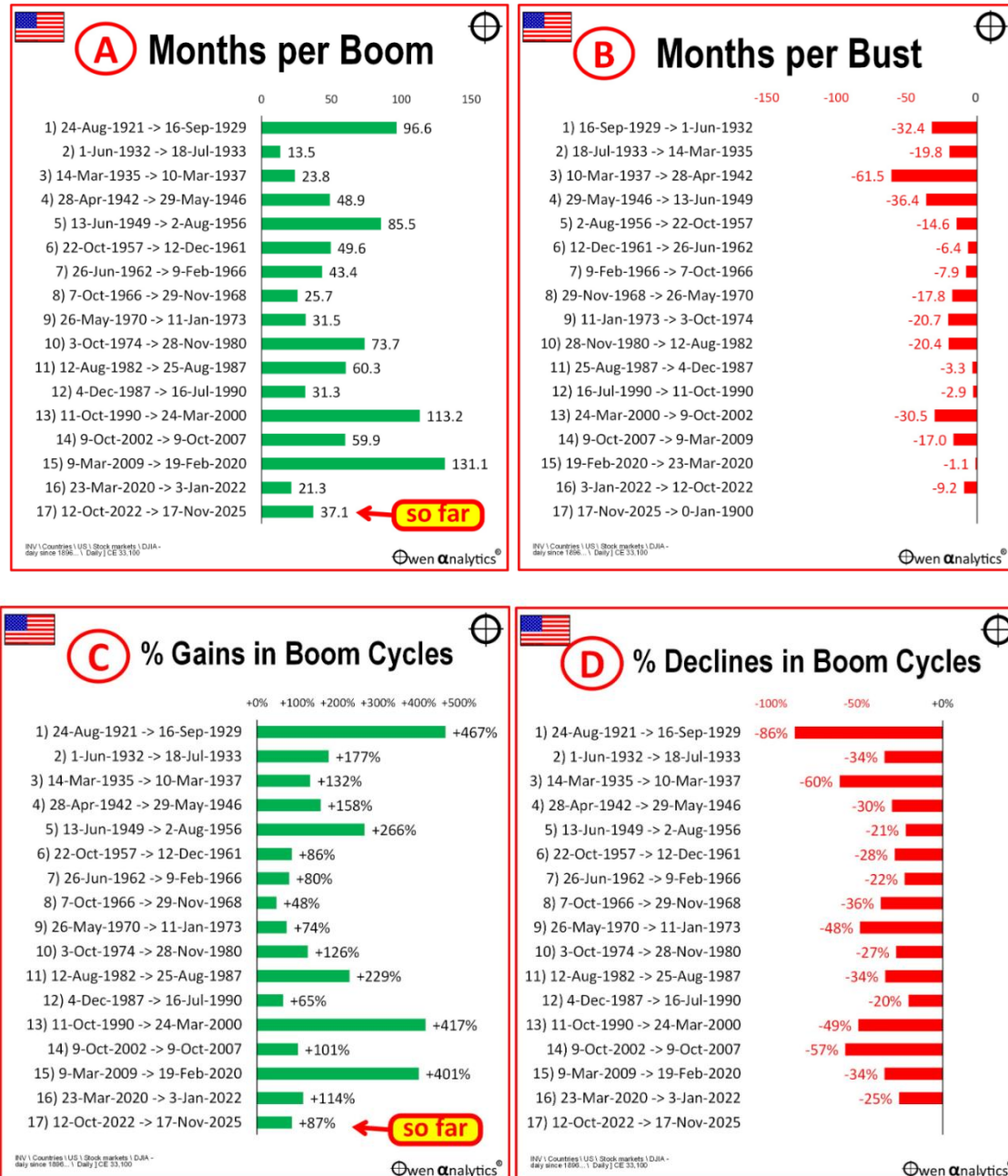
We're hearing endless talk of an AI bubble and echoes of the dotcom crash. It's sometimes best to zoom out from the noise.

In an [article](#) in *Firstlinks* this week, Ashley Owen has some great charts on how long this boom could last. He suggests that the length of the current US market boom as well as the gains have been much less than prior periods.



## How long will the current boom last?

The left chart below shows the number of months in each boom, and the right charts shows the number of months in each bust:



I'd classify the current bull market a little differently from Ashley. I think the bull market began in 2009, and therefore it's lasted about 16 years. That compares to the 20 year bull market of 1980-2000.

Either way you cut it, there might be more juice left in the current boom.

## 10. Look at what governments do, not what they say

Governments of all persuasions love to spend other people's money, no matter what they say. Labor may speak of 'affordable housing' yet it goes ahead with its 5% home loan deposit scheme which inevitably pumps up house prices.

It also promised to pare back the NDIS scheme to more manageable levels yet has failed to make a meaningful dent and the NDIS will continue to swallow a lot more taxpayers' money going forward.

The latest controversy of the Communication Minister's spending habits, then, shouldn't come as a surprise. I'm not sure if any politician would be as extravagant with their own money.

### 11. Baby Boomer wealth is driving our economy

Our country's \$18 trillion in wealth is skewed towards the old. The extent that Baby Boomers will drive spending in all sorts of areas still seems underappreciated.

I'm not just talking about the obvious like housing and aged care. Think in-home care, diabetes and other drugs, recreational pursuits such as golf and bowling, travel especially domestic, ageing houses and the need for renovations, plumbing, roofing and repairs, assistance with chores like lawnmowing and meals, the possibility of driverless cars catering to the needs of the elderly, and insurance, especially private health.

Businesses in these areas are poised to benefit from the powerful tailwind of Baby Boomer spending.

### 12. History is rhyming in real time

Lately, you may have heard of AI. You also may have heard about possible over-investment in AI that's comparable to the over-investment in telecommunications in the late 1990s. Undoubtedly, there are similarities.

Going back further through history, it's clear that exuberance over new technology has always bid up stock prices - from railways to air conditioners, to cars, airplanes, and the internet.

Two questions remain:

- Will AI demand pick up enough to meet supply and prevent another historical bust in share prices?
- Will AI prove enduring and transformative like other technologies through history?

No two periods of history are alike, and time will tell on this one.

### 13. Despite 'uncertainty', markets generally go up

At this time of year, you'll be getting a lot of '2026 outlook' articles about what's going to happen next year. Many of them will refer to 'continuing uncertainty' and 'volatility'.

It's best to tune out such references. The fact is that every year is uncertain and volatile. There are always wars, political tensions, economic worries, and the list goes on.

Yet, share markets typically move higher, as has been the case in 2025. This year, the ASX 200 is up 9%, the S&P 500 has risen 18% while the Nasdaq Composite has climbed 23% (all quoted are total returns).

Since 1875, the ASX Accumulation index (in different guises pre-1979) has averaged a return of 10.8% per annum (total returns without franking) and has ended up about four out of every five years.

Which goes to show that the odds for share market success favour those who lean into optimism.

SINCE 1875	NEGATIVE RETURNS	POSITIVE RETURNS	TOTAL
# of Years	30	117	147
% of Years	20.4%	79.6%	100.0%
Average Return	-10.1%	16.1%	10.8%
SINCE 1979	NEGATIVE RETURNS	POSITIVE RETURNS	TOTAL
# of Years	12	31	43
% of Years	27.9%	72.1%	100.0%
Average Return	-11.0%	21.9%	13.0%

*Source: Katana Asset Management*



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My article this week looks at renowned investor [Howard Marks' stark warnings on AI](#). He says speculation and exuberance are rampant in markets, and some of it will be justified though much of it won't be. He also finds the outlook for employment “terrifying” because AI “may not be a tool for mankind, but rather something of a replacement.”

**James Gruber**

**Also in this week's edition...**

**Evan Thornley** is a professional residential property investor and he finds much of the endless commentary on real estate both amusing and bemusing. Today, he outlines the [three biggest myths](#) in Australia's biggest asset class, including, "we're in a debt-funded bubble headed for another crash" and "it's all the fault of negative gearing." Evan isn't shy of taking a strong stance against consensus views.

We have three articles on retirement this week. **Stephen Huppert** thinks the superannuation system has worked brilliantly to date, though the challenge ahead is recognising that different members now [require radically different solutions](#). Meanwhile, Australia's retirement system keeps urging people to “engage more”, yet **Kaye Fallick** believes the industry's own sky-high savings targets may be the very reason so [many tune out](#). What if the real barrier isn't apathy at all, but the false promise that only a million-dollar nest egg can buy peace of mind? Finally, **UniSuper's Annika Bradley** follows up on her recent article on sequencing risk in retirement to look at the best ways [to manage this risk](#).

Selling the family home has long seemed like the obvious way to fund aged care, but **Rachel Lane** says that recent rule changes mean that choice [deserves far more scrutiny](#).

Retail real estate is outperforming as a cyclical upswing, robust demand and constrained supply drive renewed investor interest. **Charter Hall's Steven Bennett** says one particular retail niche [offers a lot more upside](#).

As investors seek to diversify their portfolios, more are looking at private equity to help them do that. **Neuberger Berman's Gabriel Ng** runs through the different [types of private equity and their benefits and trade-offs](#).

Lastly, in [this week's whitepaper](#), **Man Group** - a **GSFM** affiliate - explores how even a relatively modest allocation to gold has historically improved portfolio outcomes.

**Curated by James Gruber and Leisa Bell**

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## Howard Marks: AI is ‘terrifying’ for jobs, and maybe markets too

James Gruber

Howard Marks is a billionaire debt investor and he's the first to admit that he isn't active in stock markets and is far from a tech wizard. However, he is a long-time observer of investor psychology and has successfully called out both the tech bubble in the 1990s and the subprime bubble which preceded the GFC.

## Understanding bubbles

In his latest investor memo, Marks goes into detail about what bubbles are, how they develop, the impact they have, and whether today's AI boom can be characterised as a bubble.

He says all bubbles follow similar patterns. A new and seemingly revolution development happens and it captures people's imaginations. Early investors enjoy phenomenal gains. Others on the sidelines get jealous of these gains and eventually pile in. They do this regardless of the prices on offer or the risks attached. Eventually, it goes pear-shaped and most investors who got in late wear considerable and often irreparable losses.

If the damage is so bad, why then do bubbles recur? Marks says investor memories are short, and "prudence and natural risk aversion are no match for the dream of getting rich on the back of a revolutionary technology that "everyone knows" will change the world."

Marks suggests that bubbles typically form around new financial developments – think of the South Sea company of the 1700s or subprime mortgages in 2005-2006 – or technological progress – like rail in the 1900s, and optical fibre/the internet in the 1990s.

The "newness" of a financial development or technology plays a part. A new thing can't be guided by history and the future for the new thing can appear limitless. That's when bubbles can form and market prices can become detached from underlying values.

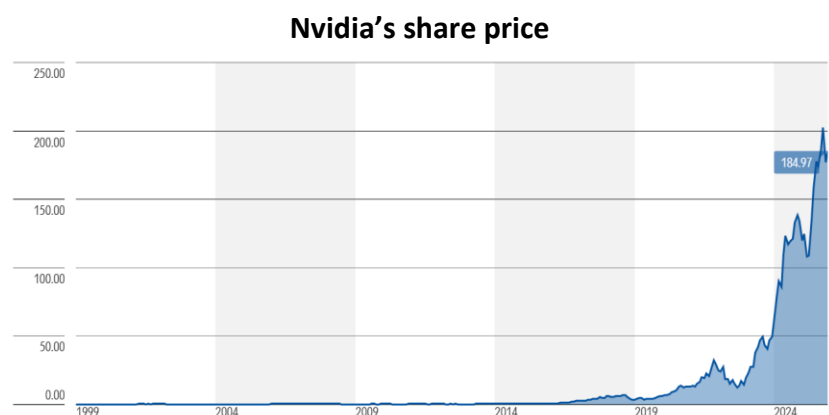
Marks takes aim at those technology enthusiasts who believe that bubbles are positive as they lead to money pouring into an area, jump-starting investment, and laying the groundwork for future prosperity. He says bubbles based on both financial developments and technology can lose a lot of money along the way:

"Mean-reversion bubbles" – in which markets soar on the basis of some new financial miracle and then collapse – destroy wealth. On the other hand, "inflection bubbles" based on revolutionary developments accelerate technological progress and create the foundation for a more prosperous future, **and they destroy wealth**. The key is to not be one of the investors whose wealth is destroyed in the process of bringing on progress."

## What about the current AI boom?

Marks thinks there's little doubt that AI has the potential to be one of the biggest technological developments of all time, reshaping economies and people's lives.

And he notes that the US economy has become more reliant on AI investment, and the US stock market has leaned heavily on the performance of AI stocks:



*Source: Morningstar*

"AI-related stocks have shown astronomical performance, led by Nvidia, the leading developer of computer chips for AI. From its formation in 1993 and its initial public offering in 1999, when its



estimated market value was \$626 million, Nvidia briefly became the world's first company worth \$5 trillion. That's appreciation of around 8,000x, or roughly 40% a year for 26+ years. No wonder imaginations have been fired."

Despite the market enthusiasm, Marks says there's still a lot of uncertainty about how the AI boom will play out. Some of the questions he has include:

**1. Who will be the winners, and what will they be worth?**

Marks suggests that there are strong AI leaders right now, though technology is notoriously disruptive, and no one knows whether today's leaders will prevail or whether they'll give way to upstarts.

**2. What's a share in an upstart worth?**

Extraordinary money is being thrown at AI startups and Marks questions what the returns on these investments will be. He cites the case of a firm called Etch, formed by college dropouts, which raised US\$120 million to build a new AI chip to take on Nvidia.

**3. Will AI produce profits and for whom?**

Will AI be a monopoly or duopoly, or will there be hundreds of different players? What impact will AI have on the companies that use it? Will it enable businesses to cut costs and increase margins, or will those improved margins result in price wars which will eventually shrink margins?

**4. Should we worry about so-called "circular deals"?**

Most of you will be familiar with the recent deals between large AI firms, and the circular nature of these announcements. Marks queries whether these transactions will achieve legitimate goals, or whether they're just a way to bump up short-term profits.

**5. What will be the useful life of AI assets?**

The lifespan of AI chips is a big topic in the tech world, and no one has an answer about where it will end up.

**6. Is exuberance leading to speculative behaviour?**

Mark cites the "extreme example" of AI startup, Thinking Labs, which raised money at a US\$10 billion valuation two months ago, and is now in early talks to raise more money at a valuation of US\$50 billion.

**7. What's the end state?**

Even AI builders don't know what type of general intelligence will be created or what kind of returns they'll make.

**8. Is the increasing use of debt a concern?**

There's been much talk of AI companies taking on significant debt to fund their investments. Mark says the use of debt is neither good nor bad, but how it's applied that counts.

On AI and debt, he quotes Oaktree colleague, Bob O'Leary:

**"Most technological advances develop into winner-takes-all or winner-takes-most competitions. The "right" way to play this dynamic is through equity, not debt.** Assuming you can diversify your equity exposures so as to include the eventual winner, the massive gain from the winner will more than compensate for the capital impairment on the losers. That's the venture capitalist's time-honored formula for success.

The precise opposite is true of a diversified pool of debt exposures. You'll only make your coupon on the winner, and that will be grossly insufficient to compensate for the impairments you'll experience on the debt of the losers.

**Of course, if you can't identify the pool of companies from which the winner will emerge, the difference between debt and equity is irrelevant – you're a zero either way.** I mention this because that's precisely what happened in search and social media: early leaders (Lycos in search and MySpace in social media) lost out spectacularly to companies that emerged later (Google in search and Facebook in social media)." [the bold text is from Marks' memo]

So, from all this, what are Marks' conclusions?

He sees no shortage of exuberance from investors chasing AI riches:

"There can be no doubt that today's behavior is "speculative," defined as based on speculation regarding the future. There's also no doubt that no one knows what the future holds, but investors are betting huge sums on that future."

However, Marks partially hedges his bets on whether AI is definitely a bubble. While there is exuberance, whether it's irrational will only be known years from now, he says.

As to how investors should position their portfolios, Marks believes going all-in on AI risks possible financial ruin, while staying completely out risks missing out on one of history's greatest technological leaps. He advises a moderate position in AI, applied selectively, as the best approach.

### **AI is coming for your job**

Marks' starkest warning comes with AI's potential impact on jobs. He finds the outlook for employment "terrifying" because AI "may not be a tool for mankind, but rather something of a replacement."

He uses examples of how AI has largely replaced 'coders' – computer programmers who write code – and digital advertisers with so-called ad matching (showing people ads tailored to the preferences displayed by their prior surfing).

Marks says more jobs will inevitably go, including drivers due to self-driving vehicles, entry-level workers, junior lawyers given AI can spit out legal precedents in seconds, radiologists as AI can read and interpret MRIs, and investments analysts given AI can do spreadsheets, business competitor analysis and much else:

**"I find it hard to imagine a world in which AI works shoulder-to-shoulder with all the people who are employed today. How can employment not decline?"** [bold text is Marks']

If jobs are lost from AI, Marks can imagine governments stepping in with things such as 'universal basic income'. But then the question will be where over-indebted developed market governments will get the money to fund such a scheme.

Marks doesn't want to be a Debbie Downer on the topic, so he ends up on a more optimistic note. That is, with millions of Baby Boomers retiring over the next decade, perhaps AI can make up for this shortfall in jobs, and the larger economic impact may be more positive than feared.

Let's hope so.

*James Gruber is Editor at Firstlinks.*

## The 3 biggest residential property myths

Evan Thornley

“I do this for a living ...” I plead in vain when confronted with the confident assertions of my be-suited friends in the big end of town mouthing off about residential property. Just because you are an expert bond trader, management consultant, CEO, banker or lawyer, doesn’t mean you know everything about residential property. I mean – do you live in a house? Yes, in fact you may have bought and sold a few over the years. You went to school too, but that doesn’t make you an education policy expert.

Yet with the same confidence – rightly earned, I don’t doubt – in their professional callings in other disciplines, I hear otherwise sensible people mouthing complete nonsense when it comes to residential property. And no amount of gentle prodding or even quoting clear quantitative evidence by me will shake their unshakeable certainty about their opinion.

So, with the Barmy Army in town, I shall borrow from their vernacular and rather than plead professional expertise, a 7-year veteran data science team, and decades of professional buying advisor experience, I’ll just say “bollocks” to all of that!

### Myth 1: We’re in a debt funded bubble headed for another crash!

I’m sorry you must have mistaken Australian housing for some long-lost equities market somewhere. When you say, “another crash”, I want to ask, when was the last one? The GFC? Paul Keating and 17% interest rates? Yes and yes, I am confidently told.

In reality, even since before I was born, Australian house prices have never suffered a greater peak to trough loss than 12% – and that was hardly a “crash”. It happened over a leisurely two-year period from a frothy high to a modest low. The market recovered almost completely in the third year.

So, this frantic “blokes-jumping-from-buildings crash” period? It happened in mid-2017, until Bill Shorten and negative gearing were dispatched by the electorate in May 2019.

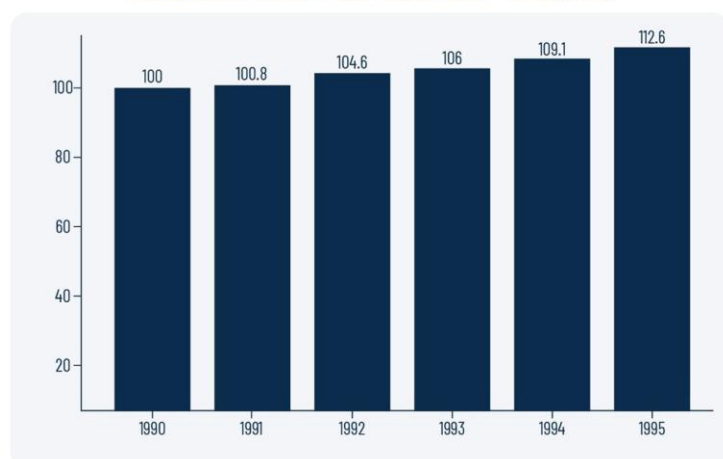
For the record, here’s the recession we had to have’s impact on property prices. See the “crash”?

Don’t see it? Nor can I. But even this won’t stop my blow-hard experts telling me otherwise. “I do this for a living” is my plaintive reply.

Speaking of “debt-funded bubbles”, in an asset class that is routinely between 21% and 24% geared, this seems unlikely. But that has never stopped the experts – starting with many major bank economists in the country – predicting blood in the streets when rates started to rise in 2023. “Bollocks,” we said.

LongView and PEXA published a white paper called “What Drives Australian House Prices?”, which

Established Home Price Index 1990 - 1995 (ABS)



Source: Australian Bureau of Statistics.

amongst other things included a graph any 12-year-old with Google could have produced in less than a minute:

### Composite Sydney/Melbourne House Price Index vs Mortgage Interest Rates



Source: PEXA LongView White Paper No.1 [“What Drives Australian House Prices Over the Long Term?”](#) Feb 2021.

See the obvious correlation between interest rates and house prices? Nope. I can’t either. I’m not saying interest rates don’t have an impact. They do. But overall, it’s surprisingly modest.

As otherwise erudite rate/bond expert Christopher Joye confidently predicted in the AFR, “a 100 bps rise in interest rates will lead to a 15-25% drop in house prices”.

Umm... Did it?

So much for “debt funded bubbles” and “crashes”.

#### Myth 2: It’s all the fault of negative gearing

If only those greedy property investors weren’t fleecing the taxpayer, the sunlit uplands of housing affordability would re-appear... Bollocks.

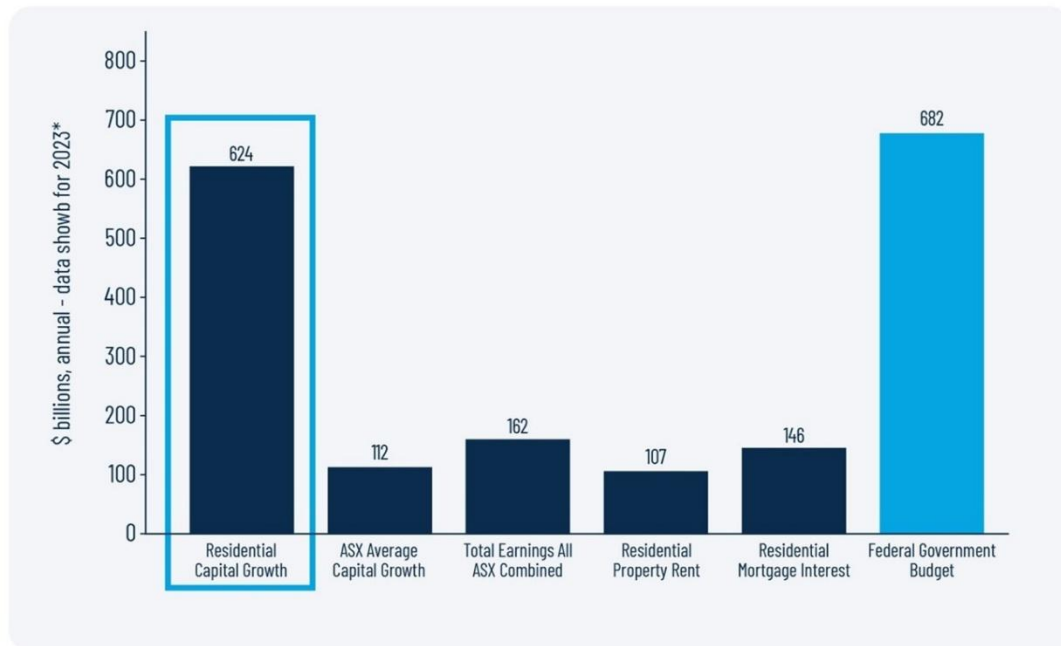
Don’t get me wrong, I could take or leave negative gearing. I’ve seen it’s pernicious influence on unsuspecting buyers of rubbish high rise apartments being swooned into thinking that wasting a dollar to save 50c in tax will make them rich. I’d happily see it gone if only to save Mum and Dad investors from being fleeced by unscrupulous developers yet again.

I spent nearly five years at McKinsey but the most important lesson I learnt was in the first two weeks – let’s separate the big numbers from the small.

Take capital growth in residential property: just the growth, not the underlying \$12 trillion of asset value. Capital growth, just this year, and most other years, will be bigger than the entire Federal Government budget. Truly. 4-5x the size of all the earnings of every company on the ASX combined.

That is the speed and scale at which Australian housing is getting less affordable. Best part of \$800 billion p.a.

### Scale of Sector



*Source: ABS; RBA D2 Lending and Credit Aggregates; ASX; Bloomberg; Australian Budget 2023–24. Data reflects a 6.5% interest rate and a median rent of \$601. Residential capital growth includes realised and unrealised capital growth for all homes. ASX capital growth source: historical market statistics (asx.com.au). Average ASX capital growth shown for the period 2019–2023.*

How on earth can a tax concession drive an \$800 billion p.a. growth engine?

As even the modelling done by proponents of eradicating it will show, eliminating negative gearing may have a once-off impact on house prices of maybe 1-3%. They would then continue their generations long climb at 7.2% p.a.

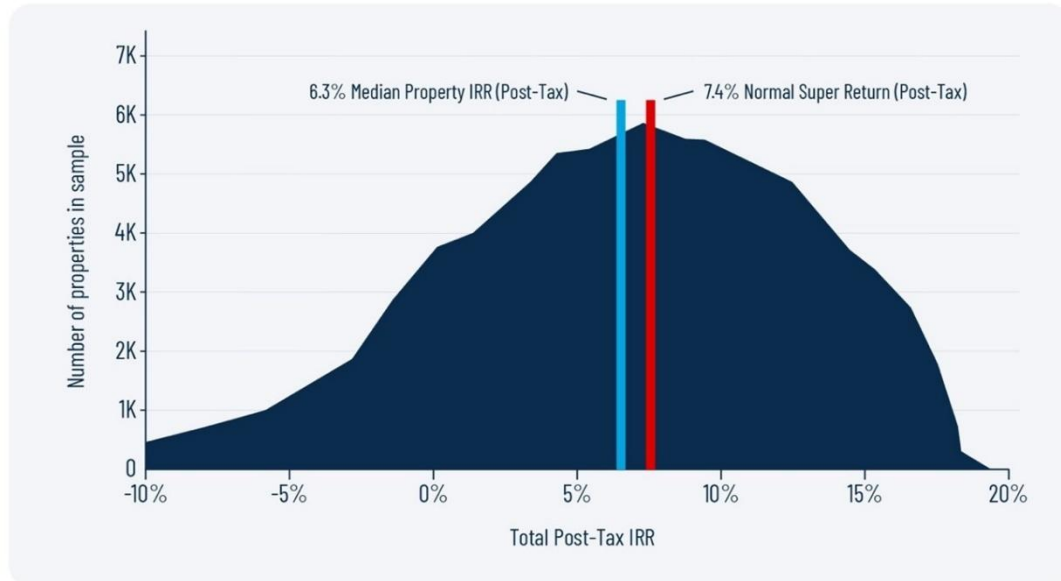
I'm not making a political point. I honestly don't care if it stays or goes. It's just mathematically irrelevant. Although not politically irrelevant – if I could make one suggestion “of all the hills to die on, Bill, that one wasn't worth it” – it would have changed nothing.

### **Myth 3: It's the greedy landlords and speculators that are causing the housing crisis**

Well if they are, they're doing a remarkably bad job at making money out of it.

As LongView and PEXA showed in White Paper #2, the average landlord is making an internal rate of return of just 6% p.a. on their money. They would have been better off putting it into a balanced super fund. Half of them made even less than that.

## IRR distribution of actual 4- to 10-year property investments in Melbourne, Brisbane, and Sydney (1990-2020).



Source: PEXA LongView White Paper No.2 [“Private Renting in Australia – a Broken System”](#) March 2023.

So, I’m not saying there aren’t some very successful property investors out there. I’m just saying that, on average, those providing rental housing are doing so on a 6% p.a. return.

Undiversified. With volatile net income flows from maintenance, arrears, vacancy and taxes.

Really, being an individual investor in individual rental properties is generally a lousy way to make money.

Our business, along with its Funds Management arm, manages 4,000 rental properties for landlords. Almost without exception the following statement is true of those landlords: they made a better return on investment on the owner-occupied home they bought for lifestyle reasons than they did on the investment property they thought they were buying to make money. And that’s even before adjusting for tax.

Whenever I say that to a landlord client, it stops them in their tracks. You can see the cogs turning over and they reply, “I think that’s true for me too”.

Better quality assets deliver a better return. Land appreciates, buildings depreciate.

Who knew?

The \$2 million family home almost always outperforms the \$700K apartment bought down the road as an “investment”.

That’s why at LongView we say we “invest in dirt disguised as houses”. 81% of the value of our portfolio of homes is in the dirt underneath them. We call them RODWELLS – Robust Older Dwellings on Well Located Land. The sort of homes most of us live in.

So, most of the rise in house prices has nothing whatsoever to do with negative gearing or greedy landlords.



It's to do with scarce urban land with family homes on it going up rapidly in value. Why? Because we have the second highest population growth rate in the world that we try to cram almost into the same big three urban centres.

Hence land values in good locations in those cities have been doubling every 8 years. For 100 years.

As Mark Twain said when counselling investment in land, "They're not making any more of it."

*Evan Thornley is CEO and Co-Founder of [LongView](#), an integrated residential property business focused on fixing Australia's broken housing system. Evan is a technology and social entrepreneur who has been a property investor for 30 years in Australia and the US.*

## Australia's retirement system works brilliantly for some - but not all

Stephen Huppert

Approximately 2.5 million Australians are projected to transition to life after full-time work (aka the retirement phase) within the next ten years, with 710,000 intending to retire in the next five years alone. For an industry managing \$4.5 trillion in retirement savings, understanding these members is essential.

Four major research reports released in recent months provide unprecedented insight. [The HILDA Survey](#), [Vanguard's How Australia Retires](#), [AMP's Retirement Confidence Pulse](#), and [Impact Economics' analysis for the Superannuation Members Council](#) collectively surveyed more than 5,800 Australians and analysed 23 years of longitudinal data. Their findings reveal that despite unprecedented wealth accumulation, Australia faces a retirement confidence crisis shaped by inadequate planning, crumbling housing assumptions and systemic gender inequalities.

### The Confidence Paradox

Only half of Australians feel financially confident about their retirement. AMP Chief Executive Alexis George describes this as a "national wake-up call," noting that "despite national wealth, a maturing super system and growing balances, too many don't have financial peace of mind about their retirement."

The sentiment gap between current retirees and those approaching retirement is stark. 65% of current retirees describe themselves as confident and secure, whilst only 43% of working-age Australians share this outlook. The inverse tells an equally concerning story: 36% of working-age Australians report feeling anxious or worried, compared to just 19% of retirees.

This suggests a fundamental disconnect between superannuation system outcomes and member perceptions. The wealth exists, but the confidence doesn't. Understanding why requires examining three interconnected factors reshaping the retirement landscape.

### The planning gap

Retirement planning emerges as the single most influential factor in determining confidence, yet nearly half of working-age Australians have no plan for how they will retire. Among those aged 55 to 64 who

are still working, only 29% describe themselves as well-planned. Perhaps most concerning, 38% of current retirees report they had no plan when they retired.

The planning effect manifests most clearly in retirement timing expectations. Working-age Australians with no plan face a gap of 9.7 years between their ideal retirement age and when they realistically expect to retire. For those with a detailed plan, this gap shrinks to just 0.3 years. Current retirees who had a clear plan were three times more likely to feel highly confident about funding their lifestyle and 65% more likely to maintain a positive outlook overall.

Whilst there is clear evidence about the value of advice, many Australians can't access or afford traditional financial advice. As the Actuaries Institute points out in a recent [discussion paper](#), we need a new framework that distinguishes between simple help, general guidance and comprehensive advice.

Yet planning alone cannot solve all challenges facing Australian retirees. Even meticulous planning can be undermined by structural shifts that are redefining what retirement looks like and what it costs.

### **When housing assumptions break down**

The Australian retirement income system has long operated on an implicit assumption that retirees will own their homes outright. This assumption underpins everything from Age Pension adequacy calculations to superannuation withdrawal strategies and retirement income benchmarks. It's breaking down rapidly.

More than one in three Millennials now expect to carry mortgage debt into retirement, along with one in four Baby Boomers. This contrasts sharply with current retirees, only 8% of whom are still paying off a mortgage. The impact on confidence is severe, with 48% of retirees with a mortgage reporting low confidence, compared with 28% of all retirees.

At the same time, outright homeownership has fallen from 75% to 66% between 2003 and 2023, whilst the proportion of retirees renting privately has doubled. Declining homeownership rates amongst younger cohorts suggest this trend will accelerate substantially over coming decades.

Renters face acute financial pressure in retirement, spending approximately 40% of their total household expenditure on housing. Nearly 60% of older renters live below the poverty line. Whilst the Age Pension provides adequate support for homeowners, it leaves the typical single renter 23% below the poverty line even with Commonwealth Rent Assistance.

The housing crisis also intersects with changing income expectations. Australians under 45 estimate they will need household income of \$100,000 per year in retirement, with those aged 25 to 34 expecting \$106,000 annually, which is a 59% increase in expectations since 2023. The reality is quite different. Current retiree couples report actually spending an average of \$55,000 per year, whilst the ASFA Comfortable Lifestyle benchmark sits at \$73,077 for couples who own their home outright.

Traditional retirement income strategies assume housing security. They will not serve the growing proportion of members who will be renting or carrying mortgage debt into retirement.

### **The gender dimension**

The confidence crisis and housing divide don't affect all Australians equally. Women face systemic disadvantages across every dimension of retirement readiness that compound these existing challenges.

Only 41% of women feel confident about retirement compared to 59% of men. This confidence gap is underpinned by persistent superannuation disparities—women aged 60 to 64 hold median balances 25% lower than men, with the gap peaking at 32% for those aged 50 to 54. Women receive on average \$1,081 less in employer contributions each year.

But the superannuation gap tells only part of the story. Life events between ages 45 and 65, a critical window for final retirement preparation, function as financial shocks that disproportionately derail women's retirement preparation.

Women are three times more likely than men to become primary caregivers between ages 45 and 65. This responsibility, whether caring for ageing parents, sick partners, or family members with disabilities, dramatically reduces their ability to participate in paid work. The reduction in earnings can be as large as \$40,000 per year, with corresponding impacts on superannuation accumulation precisely when they should be building final retirement savings.

The financial impact of other life events is equally stark. A woman forced to stop working at age 50 due to family violence can expect to have \$94,700 less in superannuation by age 67. Reducing to part-time work from age 50 due to health or caring responsibilities can cost \$81,000 in retirement savings.

Divorce at age 50 leaves separated women aged 60 to 69 with median superannuation balances 38% lower than their partnered peers. Whilst men's economic security is often relatively unaffected by separation, women face heightened risk of poverty, particularly if they do not re-partner. Over a quarter of women have experienced violence from a partner or family member, with financial abuse affecting 16% of women and creating lasting economic harm that extends well into retirement.

The vulnerability is most acute for specific groups. Single mothers in their 40s register just 19% confidence, which is the lowest of any demographic measured. These women face the perfect storm of lower superannuation balances, ongoing dependent care responsibilities, reduced workforce participation, and limited time to recover financially before retirement. Divorced women report 33% confidence compared to 53% of divorced men, a 20-percentage-point gap that reflects fundamentally different economic outcomes from the same life event.

### **What this means for funds**

This research reveals a retirement system delivering divergent outcomes that require different responses from the industry.

For many Australians, particularly homeowners with adequate superannuation balances, the system has worked remarkably well. The \$4.5 trillion accumulation represents genuine wealth creation that has transformed retirement security for millions. Yet the confidence paradox persists even amongst this cohort, driven largely by a planning gap that leaves members anxious despite having sufficient resources.

For this group, the solution is relatively straightforward. The planning gap is both concerning and actionable. 86% of working-age Australians believe it's important for their fund to provide guidance up to and through retirement. The evidence shows that planning delivers transformative outcomes, turning anxiety into confidence without requiring additional wealth.

The expectations gap amongst younger Australians, expecting nearly double what current retirees actually spend, similarly drives anxiety that outpaces genuine need. Education delivered well before retirement could materially improve retirement literacy and, in turn, confidence and planning outcomes for those on track to achieve security.

However, other groups face challenges that planning and education alone cannot solve.

One in three Millennials expecting to carry mortgage debt into retirement, 12% of current retirees already renting, and systematic gender gaps affecting half the population represent structural features of the retirement landscape, not anomalies. These aren't edge cases requiring minor adjustments to existing frameworks.

The question facing funds and policymakers is whether strategies designed for outright homeowners can adapt to adequately serve renters, whether accumulation-focused approaches can deliver appropriate decumulation outcomes for those with mortgage debt, and whether gender-neutral product design can address systemic inequalities that manifest most acutely in the final critical years before retirement.

The Australian superannuation system has succeeded brilliantly at what it was designed to do: accumulate wealth during working lives. The challenge ahead is recognising that different member cohorts now require fundamentally different solutions. For some, the answer lies in better communication and planning support to unlock the confidence their balances should deliver. For others, the anxiety reflects structural realities that demand genuine innovation in how we think about retirement adequacy in a changing Australia.

The \$4.5 trillion provides the resources. Whether the industry can deploy them effectively for all members, not just those who fit traditional assumptions, will determine whether Australia's retirement system continues to be regarded as world-class or becomes a tale of two retirements.

*Stephen Huppert is Head of Engagement at [Optimum Pensions](#). This article is intended to provide information and not advice. It should not be relied upon as advice or take the place of professional advice. It contains generic content and has been prepared without taking into account an individual's personal objectives, financial situation or needs.*

## Retirement affordability myths

Kaye Fallick

Of the many challenges in the world of retirement income, one of the most frequently noted is the lack of understanding and engagement displayed by ordinary Australians as they approach retirement. 'If only pre-retirees engaged more, they'd be so much better off', industry and regulators say.

But is it possible that this problem has been inadvertently created by industry itself, through the peddling of false dreams and entirely unrealistic retirement affordability targets?

The promise of a 'worry-free life' once the money is sorted? And that money can be sorted by simply joining the 'right' fund or purchasing the 'right' lifetime income stream?

The fact is that consumers aren't buying this dream.

The overwhelming concern of most Australians is still the fear of running out. FORO continually tops the list of reported retirement worries. Somewhat ironically, this fear, too, is false.

Except for those in extreme disadvantage – no one in Australia actually runs out – the Age Pension (\$46,202 couples combined, \$30,646 for singles) remains a reasonable safety net for most.

So why do intelligent men and women say this is their greatest concern?

Could it be they have checked out the numbers in the most popularly quoted 'retirement standard' target and the amount of money needed for most is just a pie in the sky?

### **The 'messy middle'**

Let's zoom out and look at the broader context of Australians in retirement. There are currently 4.5 million retirees with another 2.5 million expected to join them over the next 10 years. Yet many of these Australians are stumbling into retirement poorly prepared, confused, sometimes financially stressed... or simply switched off. An example of poor preparation can be seen in AMP research (2023) which revealed that 70% of over 50-year-olds do not know what an Account-Based Pension (ABP) is.

Those in retirement can be grouped into three different income profiles:

- **20% on struggle street:** According to Treasury (*Retirement Income Review, 2020*), renters represent about 15% of retirees, with about another 5% in share home arrangements or residential aged care.
- **The so-called 'top' 20%:** About 30-35% of Australians entering retirement are self-funded. But as assets are spent down, according to the *Retirement Income Review*, 80% of Australians will receive at least a part-pension entitlement in their 80s, so only 20% will be fully self-funded throughout their full retirement.
- **60% in the 'messy middle':** So that leaves us with the 60% in the 'messy middle' – the core 60% or so of retirees who enter retirement with Age Pension support and some super top-up.

### **How do we set retirement saving targets?**

Now let's consider three very different targets:

- ASFA Retirement Standard
- Super Consumers Australia
- Retirement Affordability Index

and how helpful they are for those in the messy middle trying to project a realistic retirement pay cheque.

### **The ASFA Retirement Standard**

First established by the Association of Super Funds Australia (ASFA) in 2004, initial targets for 'comfortable' retirements suggested the need for savings as high as \$1 million. That may have been seen as aspirational by a few, but it killed interest in active retirement planning for many more pre-retirees who knew they would never get near that amount. The current ASFA targets for 'comfortable' for those aged 65-85 are:

## Comfortable retirement standard (June 2025)

	Couple	Single
Annual Budget	\$75,319	\$53,289
Superannuation Goal	~\$690,000	~\$595,000

Do these amounts reflect what is happening in real life. As released by the Australian Tax Office (ATO) earlier this year, the median male super savings at retirement age (65-69) is \$218,000 and for a female, \$199,000. So actual super savings, for about half the cohort, represent barely one third of the amount in the ASFA targets for 'comfortable'. Does this force us to assume most Australians will *not* be comfortable in retirement? This comfort relies, of course on fully owning your own home. But the sharp increase in household mortgages has been well documented by [Rachel Ong ViforJ](#) and [Harry Chemay](#) – more than 50% of 55-59 year olds (i.e. tomorrow's retirees) are carrying mortgage debt.

More recently ASFA has at last acknowledged the presence of renters. But the amounts ASFA suggests are needed by those who rent are surprising - \$66,296 for couples and \$49,000 for singles. Renters in retirement do not have anywhere near these amounts. They are most likely to be full Age Pension status – singles \$30,646, couples \$46,202. Even with Commonwealth Rent Assistance, they are a long way from these income targets. As the Grattan Institute confirms, "75 per cent of retired renters have total assets, including any car and personal effects, of less than \$125,000."

So if you were heading into retirement and saw these targets, but you had just the median amount of super for your age – would they be helpful? Would they encourage you to work with an adviser and map out your future? Or would you think, as so many do, 'I don't have enough to worry about– I'm probably going to have to work forever, assuming my health holds out.'

## Enter Super Consumers Australia (SCA)

In March 2022, SCA recognised the need for a reality check and conducted a consultative enquiry into what ordinary Australians might need to live on after full-time work.

Here are SCA's latest savings targets for retirees and pre-retirees\*:

### Savings targets for current retirees (aged 65)

If you will own your own home when you retire and you live*	And you'd like to spend about this much in retirement**		Then you need to have saved this much by the time you are 65	The Age Pension will typically fund this much of your retirement spending
	per fortnight	per year		
by yourself	\$1230 (Low)	\$32,000	\$74,000	91%
	<b>\$1690 (Medium)</b>	<b>\$44,000</b>	<b>\$322,000</b>	<b>67%</b>
	\$2350 (High)	\$61,000	\$891,000	29%
in a couple <small>these numbers represent the combined spending and saving of two people living together</small>	<b>\$1810 (Low)</b>	<b>\$47,000</b>	<b>\$99,000</b>	<b>92%</b>
	<b>\$2460 (Medium)</b>	<b>\$64,000</b>	<b>\$432,000</b>	<b>70%</b>
	<b>\$3420 (High)</b>	<b>\$89,000</b>	<b>\$1,216,000</b>	<b>34%</b>
Think these numbers are a little low? These savings targets factor in income you may be entitled to from the Age Pension. We've estimated the fraction covered by the Age Pension.				

\*These targets assume you own your home outright (or otherwise will not pay rent or a mortgage) when you retire.

\*\*Spending levels are in today's dollars and have been adjusted for inflation. These levels are based on ABS data on retiree spending.

Source: Super Consumers Australia. Updated December 2025



These target amounts are much more in line with what is happening if we consider the 20/60/20 framework of retirees. The high amounts are higher than ASFA, the low amounts are in line with Age Pension payments and those in the middle, with the exception of singles, are closer to median amounts. They do, however, continue to assume homeownership and/or no mortgage costs or rental expenses.

### The Retirement Affordability Index

Although somewhat below the radar, I would suggest the [Retirement Affordability Index \(RAI\)](#), first published in March 2017, is much more useful for ordinary Australian retirees. Full disclosure: I took the 'problem' of retirement living spending to Matt Grudnoff, senior economist at The Australia Institute (TAI). Matt had previously worked at the ABS and understood their data well. From inception, the purpose of this index was to offer an ongoing report on how much retirement actually costs, depending upon your very individual circumstances or 'tribe', including those who rent. This data is based not upon a basket of goods but actual household spending for these different profiles. It is adjusted every quarter for CPI.

Matt created the index based upon the ABS *Household Expenditure Survey (HES)*, but specifically cut into the following six tribes:

Retirement tribe	Retirement income	Living situation	% of retirees	Total annual expenditure
Affluent couples:	Receive most of their income from private sources	Homeowners	18%	<b>93,388</b>
Affluent singles:	Receive most of their income from private sources	Homeowners	11%	<b>53,483</b>
Constrained couples:	Receive most of their income from government pensions and allowances	Homeowners	23%	<b>54,211</b>
Constrained singles:	Receive most of their income from government pensions and allowances	Homeowners	29%	<b>30,097</b>
Cash strapped couples:	Receive most of their income from government pensions and allowances	Renters	4%	<b>46,368</b>
Cash strapped singles:	Receive most of their income from government pensions and allowances	Renters	14%	<b>29,347</b>
Other	Receive most of their income from private sources	Renters	1%	

*RAI expenditure tables for the September 2025 quarter*

### Are these annual spending targets perfect?

No. The HES was last published by the ABS in 2015. It was due to be updated in 2020 but skipped due to the Covid lockdowns which would have distorted the data. I am informed that research is in the field at the moment and will be available in early 2026, when we can completely update the *Retirement Affordability Index*.

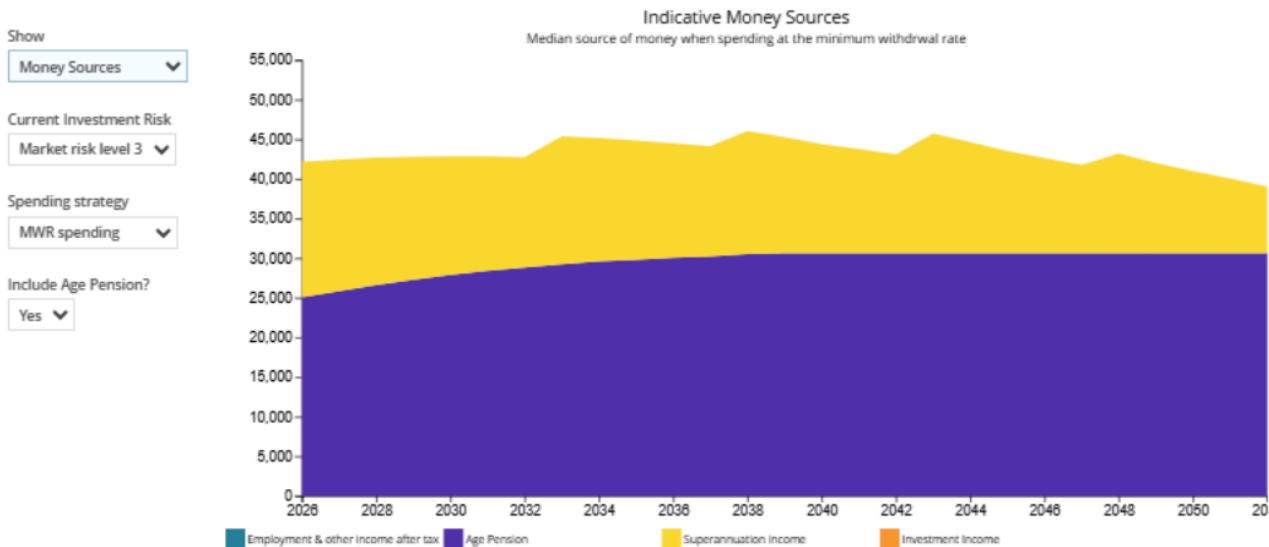
That said, both Matt and I believe this index provides fact-based spending information to enable current Australian retirees to calculate their future income needs.

### How liveable is a 'median' retirement?

Regardless of a preference for one index over another, how can industry provide reliable expectations with those who are struggling to understand what they will need in retirement?

Here is a projection (provided by Retirement Essentials) of what median super savings might provide when combined with an Age Pension entitlement. The case study shows a couple, aged 67, who are homeowners with median combined super of \$417,000, \$30,000 bank savings and \$20,000 in household contents.

Based on the information that you've provided, we've created a forecast of your wealth/income over the coming years.



\* Note: This forecast is indicative only. It does not take into account all your circumstances, investment strategy or your retirement preferences. Mortgages and other debts are assumed to be repaid over 15 years and carry a variable interest rate at 1% more than inflation.

### This is what situation normal looks like

These median savings will convert to a retirement pay cheque of \$40,000-45,000 per annum over time.

- This couple will not have \$75,000 to meet the ASFA comfortable standard.
- They will not have \$64,000 which would meet the 'medium' category from Super Consumers Australia.
- Nor will they have \$54,000 to match the 'constrained' tribe in the Retirement Affordability Index.

Instead, they will live on about \$10,000 less. But nor will they actually run out!

This 'situation normal' picture is the one that industry needs to explain in order to encourage interest and engagement from ordinary retirees. Talking 'real' targets, not aspirational ones, will help them manage their expectations while making the most of what they have.

And by sharing 'situation normal' rather than 'pie in the sky' targets we can introduce another important message. That the sooner retirees engage with more achievable, realistic targets, the sooner they can get active on their own behalf. This means learning the rules they need to know, considering mortgage management options, taking advantage of super concessions and perhaps working longer.

Above all else, taking control of spending to maintain maximum control over their own financial futures.

The role of industry is to ensure that our stories are relatable and realistic – and that the targets are truly affordable.

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This is an edited extract from Kaye's presentation at the CEPAR 33rd Colloquium on Pensions and Retirement Research in November 2025 at UNSW.

\*SCA targets at CEPAR were from January 2025, now updated to December 2025 for this article.

## Can you manage sequencing risk in retirement?

Annika Bradley

Many of you will have read my article "[Can the sequence of investment returns ruin retirement?](#)". It introduced 'sequencing risk' and how a string of negative returns can impact your retirement. Here, we focus on how it can be managed.

In fact, the best antidote to sequencing risk is luck. If history is a guide, most Australians hopefully won't encounter a prolonged string of negative returns early in retirement. But hope is not a strategy.

Managing sequencing risk involves trade-offs and we look at two levers available: your withdrawal strategy and your investment strategy. Finally, we consider the role that a bucketing strategy might play.

### Can a flexible withdrawal strategy manage sequencing risk?

My earlier article showed the impact arising from the interaction between fixed cash flows out of a portfolio and the order of investment returns (Exhibit 1). In this case, Ursula received the unlucky order of investment returns.

**Exhibit 1:** A different order of annual returns and the impact if withdrawing a fixed amount from an account

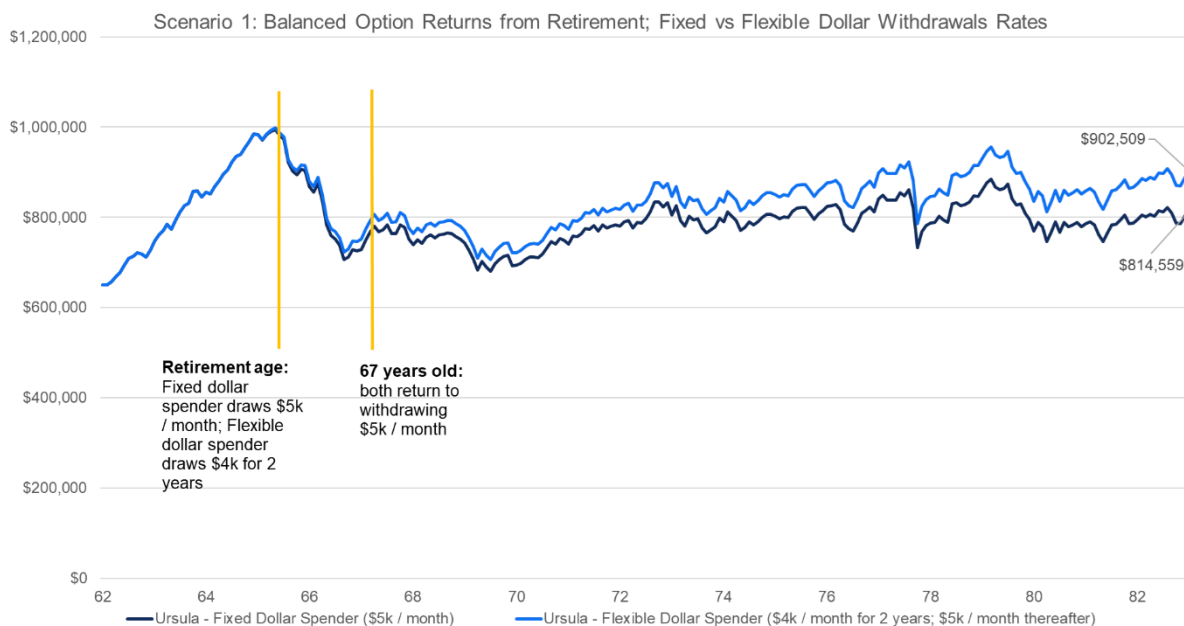
	Lucky Lucy's order of investment returns	Unlucky Ursula's order of investment returns	Lucky Lucy's account balance if withdrawing a fixed: \$10 / year	Unlucky Ursula's account balance if withdrawing a fixed: \$10 / year
Starting account balance			\$100	\$100
Return - Year 1	10%	-5%	\$100	\$85
Return - Year 2	2%	2%	\$92	\$77
Return - Year 3	-5%	10%	\$77	\$74
Annualised average return	2%	2%		

But what if Ursula decides to change her spending behaviour? What if she withdraws varying amounts (versus a fixed amount) each year from her account, in response to market conditions? Let's call this a "flexible" withdrawal strategy. For example, in Year 1 when the market drops, she takes \$5 instead of a fixed \$10. But in Year 3, when markets accelerate, she takes \$15. Exhibit 2 shows her end balance is healthier when withdrawing flexible annual amounts – even though the amount withdrawn in total over the 3-year period is the same as that shown in Exhibit 1.

**Exhibit 2: A flexible withdrawal strategy depending on market conditions**

	Ursula's order of investment returns	Ursula's account balance if withdrawing a fixed: \$10 / year (fixed withdrawing approach)	Ursula's account balance if withdrawing a flexible: \$5 in Year 1; \$10 in Year 2 and \$15 in Year 3 (flexible withdrawing approach)
Starting account balance		\$100	\$100
Return - Year 1	-5%	\$85	\$90
Return - Year 2	2%	\$77	\$82
Return - Year 3	10%	\$74	\$75
Annualised average return	2%		

Let's revisit the more realistic example from the earlier article. Recall that it's mid-2007 when Ursula retires and due to the Global Financial Crisis (GFC) she receives a prolonged string of negative returns early on in retirement. But, by adopting a flexible approach (light blue line) and withdrawing \$4,000 per month for the first two years of retirement (when markets are dropping) instead of \$5,000 per month (dark blue line), her final balance is almost \$90,000 higher at the end of the period.



*For the purposes of this comparison, we have referenced the actual monthly accumulation returns of UniSuper's Balanced Options for the period 1 July 2004 to 30 June 2025. Please note that past performance isn't an indicator of future performance. Option returns are calculated after investment expenses and taxes, but before account-based fees are deducted.*

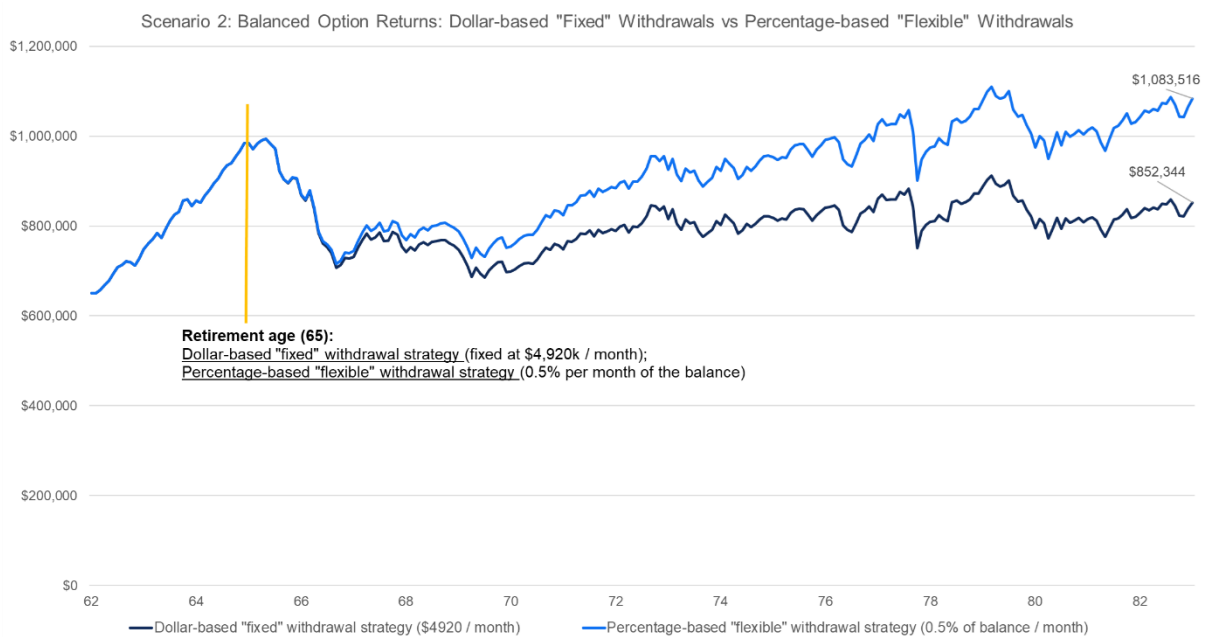
## Percentage-based withdrawal amounts

Remember, the government's mandated minimum withdrawal rates for superannuation are percentage based (as opposed to a fixed dollar amount). This acts as a 'built-in' flexible withdrawal strategy.

Scenario 2 compares a percentage-based 'flexible' strategy to a dollar-based 'fixed' strategy.

Let's assume Ursula retires at age 65. Under the percentage-based strategy she withdraws 0.5% per month of her starting balance in retirement (roughly \$984,000) which equates to \$4,920 in the first month. Under the flexible strategy, the withdrawal amount changes for each subsequent month as a result of the change in the outstanding superannuation balance – ranging from \$3,500 to \$5,500. The total income withdrawn is just over \$1 million using a 'flexible' strategy. Contrast this with the dollar-based withdrawal strategy which is fixed at \$4,920 each month. The total income drawn under the 'fixed' strategy is about \$66,000 higher, but you can see from the below graph that the end balance is \$230,000 lower.

Of course, the story depends on the investment returns. If you encounter a string of positive returns early in retirement and employ a flexible spending strategy – you may spend more in total. The scenarios are endless.



*For the purposes of this comparison, we have referenced the actual monthly accumulation returns of UniSuper's Balanced Options for the period 1 July 2004 to 30 June 2025. Please note that past performance isn't an indicator of future performance. Option returns are calculated after investment expenses and taxes, but before account-based fees are deducted.*

However, under this specific scenario, it's clear that a flexible withdrawal strategy helped manage sequencing risk. But are you prepared to accept this trade-off?

We've all tightened our belts at times – due to changes in job or salary or the need to meet different expenses (for example, private schooling). But flexible spending won't suit everyone in retirement. Particularly, in the early, active years when you might like to travel and spend more. It's a trade-off – how important is a steady dollar amount each month versus the possibility of a higher balance at the end?

### Does the investment option you pick help manage sequencing risk?

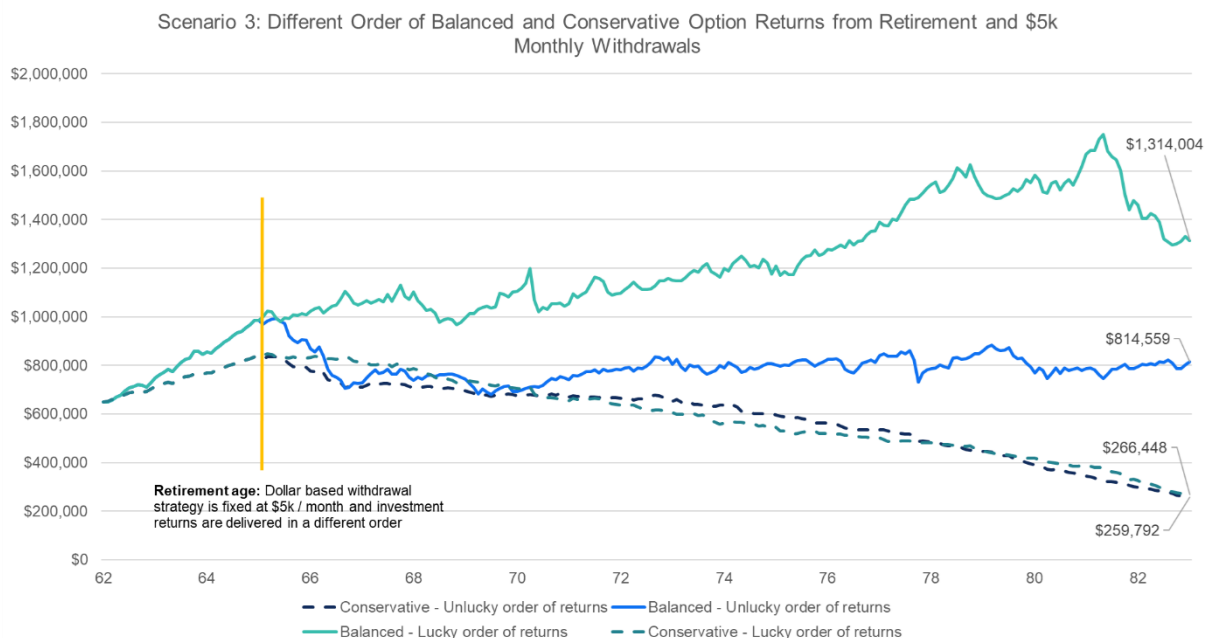
The investment option or mix of options you choose play a role, but there are also trade-offs here. Taking less investment risk typically narrows your range of outcomes when it comes to sequencing risk, but also typically results in a lower balance in the long run.

Scenario 3 draws on the 'lucky' and 'unlucky' return series from the previous article, while withdrawing a fixed \$5,000 per month. To recap, in our previous article we looked at two series of investment returns ordered differently upon retirement. The 'unlucky' order of returns (based on the actual returns of UniSuper's Balanced Option between 30 June 2007 and 30 June 2025) when the GFC came early in retirement. And the 'lucky' order of returns – simply the reverse order of the 'unlucky' returns and the GFC comes very late in retirement. In this scenario, the different final balances are solely attributable to a different order of investment returns once even modest withdrawals start (refer solid green and blue lines in the graph below).

But, what happens if we use a 'lower risk' investment? Let's use UniSuper's Conservative Option's investment returns instead of the Balanced Option over the same period and apply the same methodology as above (refer dashed green and blue lines below). The end balances of the Conservative 'lucky' and 'unlucky' order of returns are within \$7,000 of each other (compared to \$500,000 for the Balanced Option). The 'range' of potential outcomes has narrowed dramatically.

Now note the end balances. The growth potential available from a Conservative Option is typically lower than a Balanced Option and this result is a classic example. Even the Conservative Option's 'lucky' order of returns ends up more than \$500,000 different to the Balanced Option's 'unlucky' order of returns. While cherry picked for effect, the lesson from this example shines through when modelled over many scenarios and timeframes.

An investment option with lower growth prospects is generally less prone to the impact of a lucky or unlucky order of investment returns. That is, the range of outcomes is generally narrower, but the trade-off is typically a lower long-term balance. It's worth considering what is more important to you? For some people a large bequest for family members is important, for others it's prioritising return stability.



*For the purposes of this comparison, we have referenced the actual monthly accumulation returns of UniSuper's Balanced and Conservative Options for the period 1 July 2004 to 30 June 2025. Please note that past performance isn't an indicator of future performance. Option returns are calculated after investment expenses and taxes, but before account-based fees are deducted.*

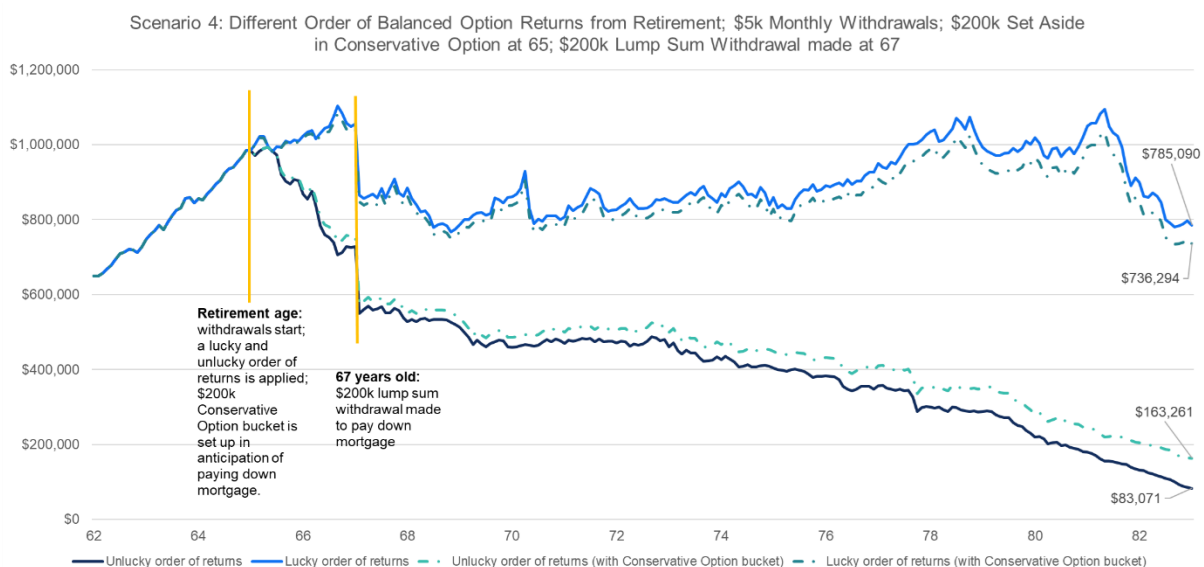


## Does 'bucketing' help manage sequencing risk?

Finally, let's look at the role a bucketing strategy might play in managing sequencing risk. 'Bucketing' is when the anticipated amount of money for either a large purchase or a few years of future spending needs is placed in a separate lower risk bucket. The two main impacts of this strategy are:

- **Growth asset reduction:** establishing a lower risk bucket reduces the portfolio's overall exposure to growth assets (and generally results in a narrower range of outcomes as we saw above); and
- **Mental accounting:** putting money aside into a lower risk bucket can help manage loss aversion, as a person may be less likely to respond emotionally to falls in the value of the higher risk bucket if they know they're immediate spending needs are met by the lower risk bucket.

Scenario 4 shows the outcome of establishing a \$200,000 'Conservative Option bucket' on 30 June 2007 in anticipation of paying down a mortgage two years later. The allocation to the 'Conservative Option bucket' for this two-year period results in lower overall portfolio exposure to growth assets. If the 'lucky order of returns' is received (top two lines), the 'bucket' strategy (i.e. lower overall allocation to growth assets depicted by the dashed line) means a lower balance at the end. But if the 'unlucky order of returns' is incurred (bottom two lines), a 'bucket' strategy is beneficial. The end balance is around \$80,000 healthier. More trade-offs...are they worth it?

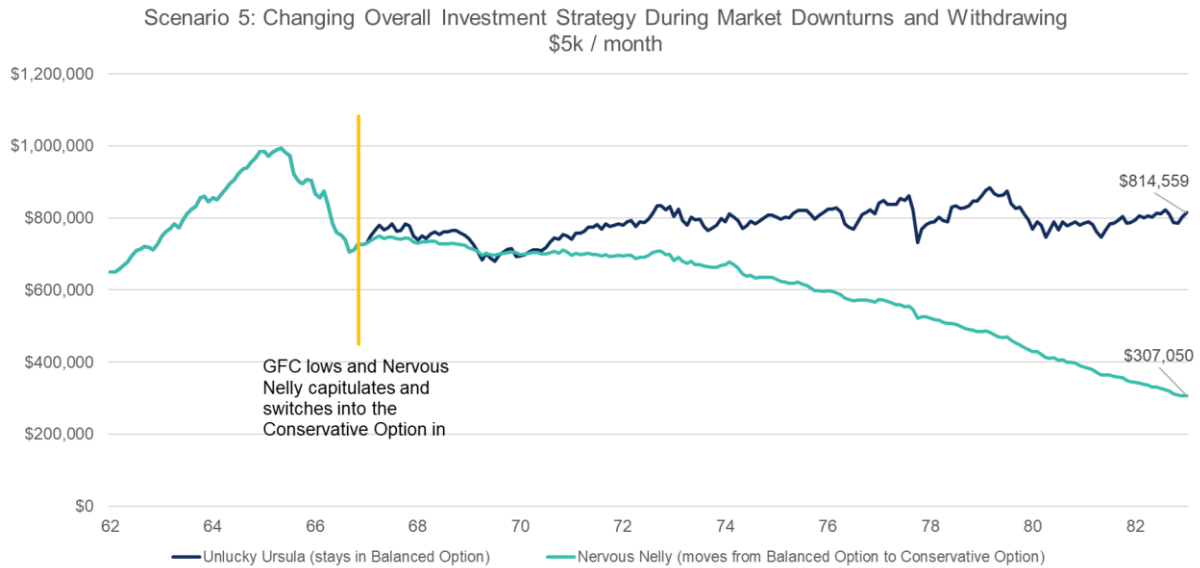


*For the purposes of this comparison, we have referenced the actual monthly accumulation returns of UniSuper's Balanced Option for the period 1 July 2004 to 30 June 2025 and UniSuper's Conservative Option for the period 1 July 2007 to 30 June 2009 (the two years in which the "bucket" strategy is applied). Please note that past performance isn't an indicator of future performance. Option returns are calculated after investment expenses and taxes, but before account-based fees are deducted.*

## Bucketing helps manage loss aversion

Managing loss aversion is the real magic of a bucket strategy. If a Conservative Option 'bucket' gives you comfort that your short-term future cash needs are met and as a result, you are less likely to adjust your overall investment strategy in response to market falls, it may be worth the potential trade-off.

Let's look at Scenario 5. It shows materially different outcomes. Ursula rides out the prolonged string of negative returns, whereas Nelly can't and switches into a 'safer' Conservative Option at the lows of the GFC. This means Nervous Nelly's portfolio doesn't recover as strongly.



*For the purposes of this comparison, we have referenced the actual monthly accumulation returns of UniSuper's Balanced Option for the period 1 July 2004 to 30 June 2025 and UniSuper's Conservative Option for the period 1 July 2009 to 30 June 2025. Please note that past performance isn't an indicator of future performance. Option returns are calculated after investment expenses and taxes, but before account-based fees are deducted.*

So, yes, bucketing can play a role in managing sequencing risk. It reduces the overall growth allocation, which generally means a narrower range of outcomes, but a lower potential balance at the end. However, introducing a mental accounting framework can help manage loss aversion and potentially helps you to stay the course if you're unlucky enough to encounter a prolonged string of negative returns early on in retirement.

### Sequencing risk can be managed

Retirement may last for many years, so it's important to select the right investment strategy for your time-horizon and investment tolerance and ride out market ups and downs. When it comes to sequencing risk, it's better to get lucky. There are no silver bullets, but if encountered early in retirement, consider the trade-offs best suited to you.

Some people want more certainty about withdrawal amounts and account balances, others are willing to accept more ups and downs in exchange for a potentially higher balance at the end. Both are valid perspectives; it depends on your preferences. And while a bucketing strategy does simply reduce your overall growth allocation, it can be a good approach, particularly if you are a Nervous Nelly. You can't control the sequence of returns, but you can plan ahead and seek advice.

*Annika Bradley is Head of Advice Strategy, Research & Technical at [UniSuper](#), a sponsor of Firstlinks. She brings over 20 years of experience across investments and wealth management in both the public and private sectors. In previous roles Annika worked with Morningstar and QSuper. The information in this article is of a general nature and may include general advice. It doesn't take into account your personal financial situation, needs or objectives. Before making any investment decision, you should consider your circumstances, the PDS and TMD relevant to you, and whether to consult a qualified financial adviser. Issued by UniSuper Limited ABN 54 006 027 121 the trustee of the fund UniSuper ABN 91 385 943 850.*

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## Don't rush to sell your home to fund aged care

Rachel Lane

For years, the mantra around aged care and the family home was simple: think twice before you sell. But in a post-November 1 world with changing rules and financial implications that reach well beyond emotional ties, that advice has shifted to thinking three times.

Many people believe selling the family home is the only way to fund aged care, particularly when faced with the refundable accommodation deposit (RAD) that is normally hundreds of thousands of dollars.

The fact that any unpaid RAD incurs interest at 7.61% per annum can make it seem like a no-brainer – after all, a \$750,000 RAD equates to \$57,075 a year. The numbers are big and selling the house feels like a simple way to make it all work.

But in numerous instances, keeping your home can provide significant financial advantages, ones you can't get from any other asset.

One of the biggest misconceptions is that the family home is fully assessed for aged care fees. It's not. When you move into aged care, the value of your home is only counted in the means test up to a capped value of \$210,555. This cap can make a dramatic difference.

Most homes are worth substantially more than the cap. If you have a \$1.2 million home then the cap effectively exempts \$1 million of it. If you sell the home and pay the RAD, all the money you put into the RAD is included in your aged care assets and any money left over counts towards your aged care and pension means tests.

*Selling the family home can feel like the simplest solution – but simple isn't always smart.*

There's a second consideration: your RAD is exempt from your pension assets test. If you keep your home, it's not counted towards the pension assets test for two years after you move into aged care. If you are a couple, the clock starts ticking only when the second person leaves.

However, there is a new piece of the puzzle – the exit fee on your RAD. Before November 1, paying a refundable accommodation deposit meant exactly that: all of your money was refunded when you left. Now, there is an exit fee of up to 10 per cent if you stay for five years or more.

Paying by RAD could see a significant portion of your capital disappear; on a \$750,000 RAD you would lose \$75,000 after five years. While there are certainly no guarantees, keeping your home could preserve the value of your capital and potentially grow it.

Keeping the home isn't free and doesn't suit everyone, but the point is that you have options. And it's worth seeking advice to work out which one is best for you. Selling the family home can feel like the simplest solution – but simple isn't always smart. The capped value for aged care, two-year pension exemption, and new RAD exit fees mean the financial scales have shifted.

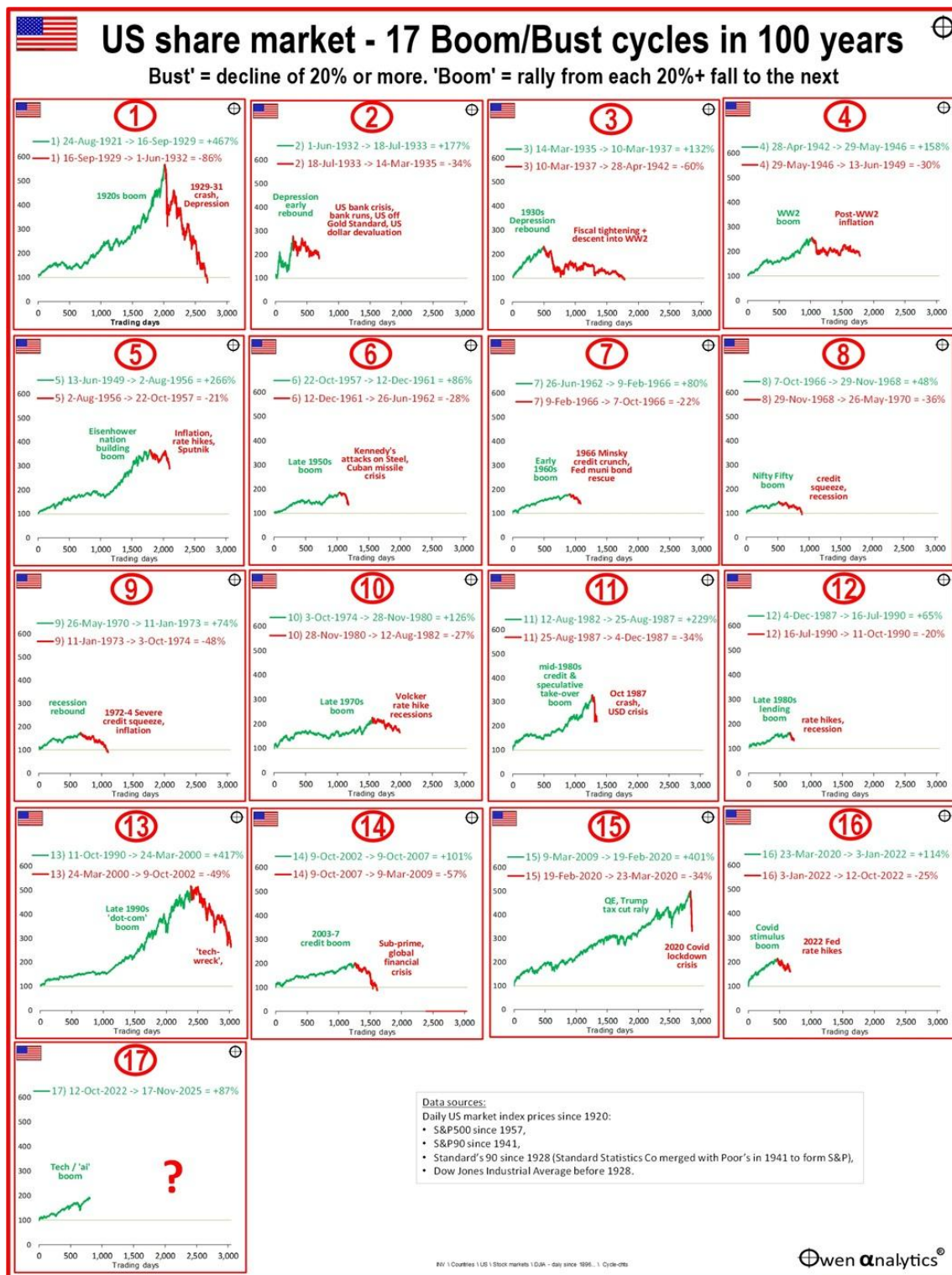
In such a complex environment, it's literally a case of thinking three times before you act.

*Rachel Lane is the Principal of [Aged Care Gurus](#) where she oversees a national network of advisers dedicated to providing quality advice on retirement living and aged care. She is also the co-author of a number of books with Noel Whittaker including best-seller 'Aged Care, Who Cares?' and '[Downsizing Made Simple](#)'.*

## US market boom-bust cycles - where are we now?

Ashley Owen

The below chart shows the US share market since 1920 divided into 'boom-bust' cycles. Here I define a 'bust' as a decline of 20% or more for the market index. A 'boom' is the rally from the bottom of a fall of 20% or more to the start of the next fall of 20% or more, so the bottom of each bust is the starting point for the next boom-bust cycle.



The scales for the y-axes (vertical, for height of boom and bust) and x-axes (horizontal, for length in trading days) are the same in each chart, so we can easily compare the different heights and durations of the booms and busts in each cycle.

For example, we can see that the biggest (highest) boom was cycle 1 (the Roaring 1920s speculative boom). Not far behind that was the 1990s 'dot-com' boom. Both booms ran for nearly a decade into extreme levels of over-pricing, and both suffered deep crashes (and deep national and global economic contractions) that took many years to recover.

### **Why worry about boom-bust cycles at all?**

It is all very well to say that the overall share market has delivered returns averaging 11% per year over the past century or the past half century (which it has). 'Time-in-the-market' beats 'Timing-the-market' – right?

The problem is that 'time-in-the-market' only works over very long periods of time. You and I don't have investment time frames of a century or half century, so we are not going to get those nice ultra-long-term returns (and those are past returns, not future returns).

You and I have shorter term 'investment horizons' – like a few decades, which means our returns vary greatly depending on what stage of the boom-bust cycle we happen to be in.

### **What causes booms and busts?**

Putting aside the academic 'efficient markets hypothesis' (which claims that every asset in every market is at all times perfectly fairly priced, and instantly reflects every relevant piece of information, and therefore 'booms' and 'busts' don't exist), there are three main real-world answers to this question.

**First** – Most cycles are driven or accompanied by economic cycles, or more specifically, cycles in investment market conditions driven usually by fiscal and monetary policy cycles, and usually accompanied by investor confidence about growth prospects created by some new idea or technology – eg railways, trade with new colonies, electricity, motorcars, telephones, radio, urban expansion, mineral discoveries, internet, etc. In the current boom it is 'artificial intelligence'.

**Second** – Markets are driven by wild human emotions (Keynes called them 'animal spirits' in his 1936 'General Theory') like fear and greed (I actually prefer Charlie Munger's 'fear and envy').

Irrational over-confidence leads people to bid up prices of assets to crazy high levels in the euphoric booms, and then irrational over-pessimism leads those same humans to suddenly dump those same assets, which creates devastating busts.

Instead of the usual: '*History never repeats, but it does rhyme*' (which Mark Twain never actually wrote), I prefer François-Marie Arouet ('Voltaire', in *Candide*, 1759, ch.30) –

*'History never repeats itself. Man always does.'*

It's hard-wired into human nature. We can't help it. Humans are herd animals. We follow the herd into wild booms, then we follow the herd in the stampede out.

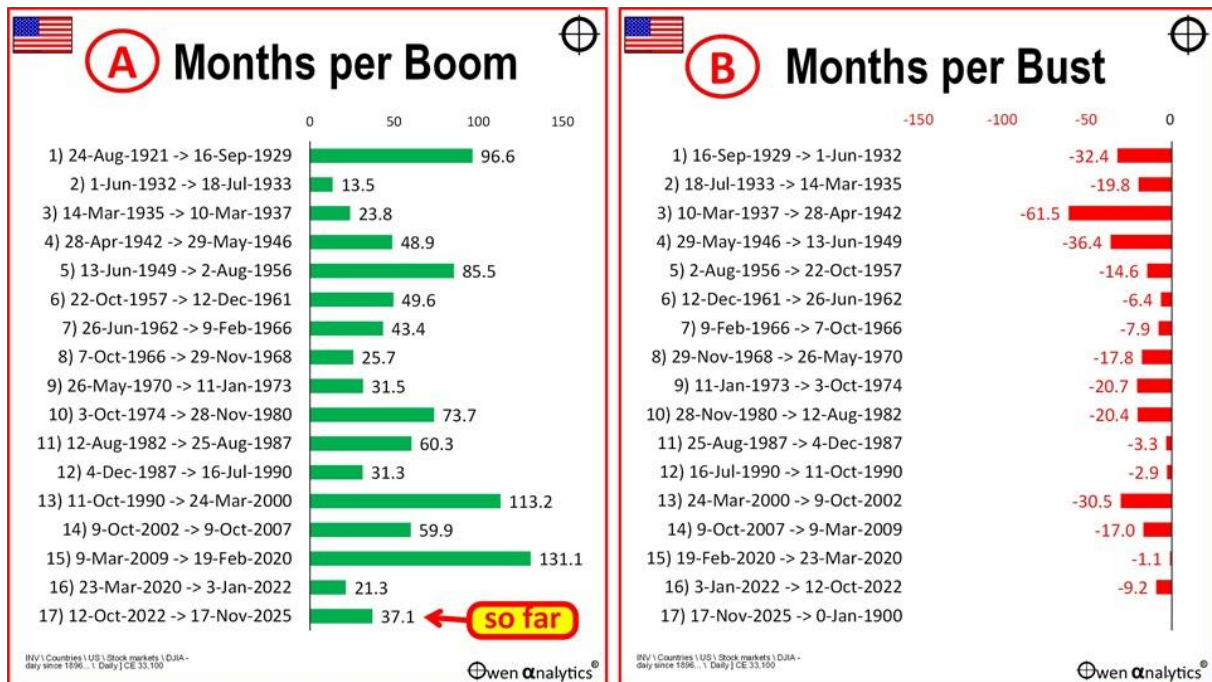
**Third** – Often there is an additional incentive that provides a kicker or accelerant to booms – some new element that opens up new markets or allows more investors access to markets. This could be in the



form of a new tax break (like franking credits, or tax-deductibility), or a deregulation (like the repeal of Glass-Steagall, or deregulation of brokerage), or a new financial instrument (like pooled investment trusts, or managed funds, or margin lending, or self-managed 'superannuation', or low-cost on-line brokerages, or fractional shares), etc. These types of catalysts result in more people throwing more money into the frenzied booms.

### How long will the current boom last?

The left chart below shows the number of months in each boom, and the left charts shows the number of months in each bust:



US boom cycles (average of 57 months, left chart) are much longer than the busts (average 19 months, right).

The current boom (cycle 11) started at the bottom of the 25%+ sell-off in 2022 (aggressive Fed rate hikes to tackle inflation). The current boom has now been running for just 37 months so far, which is much shorter than most booms.

Even if we put cycles 16 and 17 together and call them one long US tech/AI boom, it still has been a lot shorter than many prior booms.

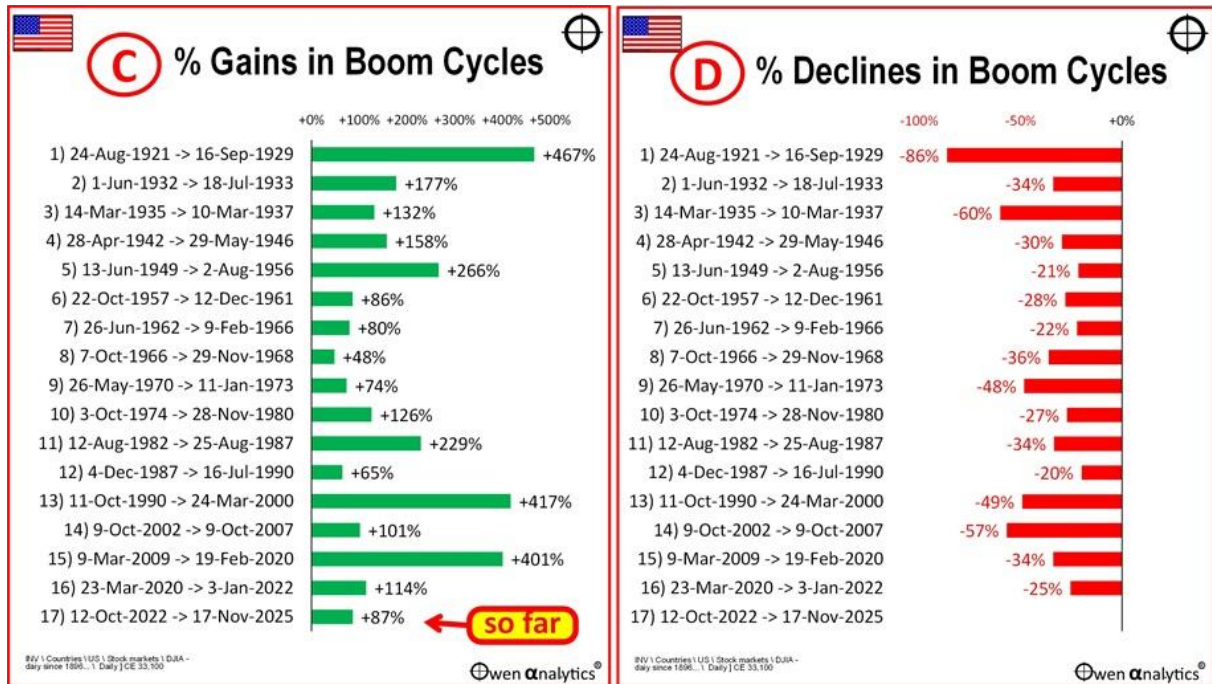
How long will the current boom last? Impossible to predict of course, but it is comforting to know that there have been plenty of longer booms in the past. General investor confidence can keep a boom going for many years before the boom finally ends.

Another observation from the above pair of charts is that the busts are a lot shorter than the booms. Overall, the market has been in boom phases for 75% of the total time, and in bust phases for just 25% of the time.

### How high can the current boom go?

The next pair of charts show the % gains in the booms (left) and the % declines in the busts (right).





So far (as at mid-November 2025) the market index is up +87% since the start of the current boom, but that is very small compared to the average boom gain of +184%.

Even if we add cycles 16 and 17 together, the market is up some +188% since the start of cycle 16 (ie including the cycle 16 bust in 2022). That sounds big, but that is still no more than the average boom.

It is impossible to predict how high the current boom will go of course, but there have been plenty of booms that went a lot higher. There have been plenty of booms where the market more than doubled, trebled, and even quadrupled before finally collapsing in the bust.

### Current is boom quite moderate in strength

One clue to the extent of boom-time frenzy is to look at the slope of the upward price movements in the booms, especially in the latter part of the boom, when the frenzy is usually greatest right before the bust.

We can see from the main chart that the current boom (thus far anyway) has been relatively moderate in terms of the slope of the price index. Remember that the scales for the y-axis (% change) and x-axis (trading days) are the same for each chart, to enable quick 'eye-ball' comparisons of the booms and busts.

We can see much steeper upward slopes – especially in the latter stages - in cycles 1 (1920s), cycle 5 (mid-50s), cycle 11 (mid-1980s), and cycle 13 (late 1990s 'dot-com').

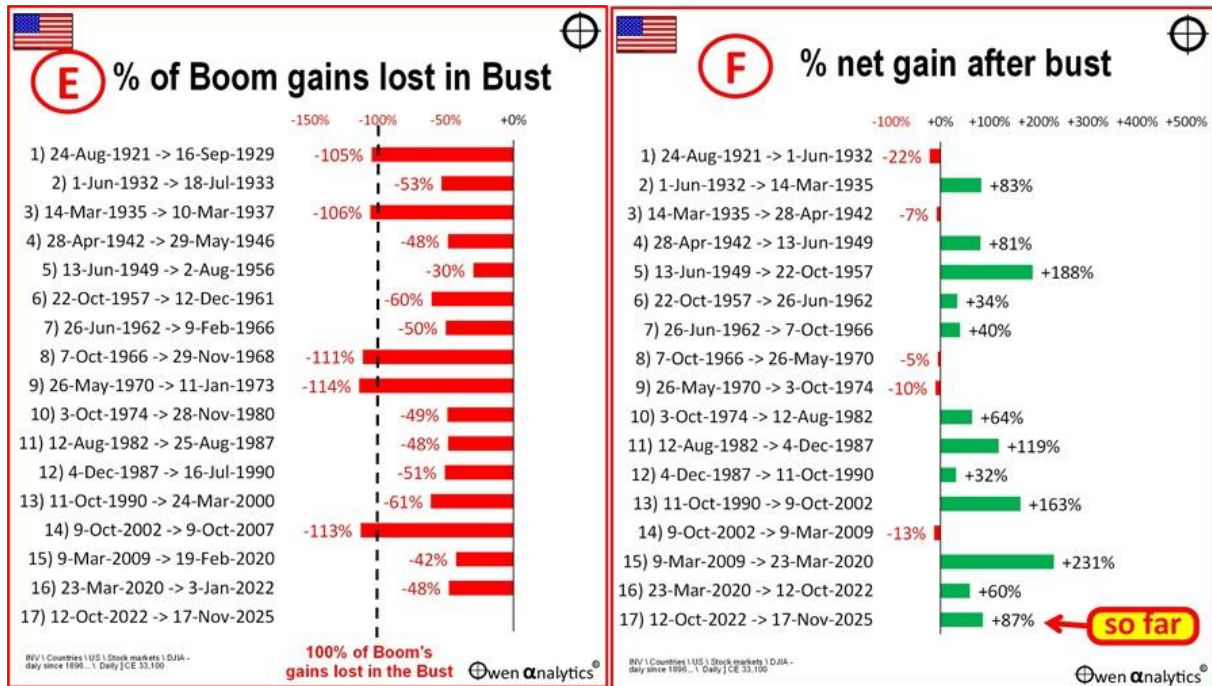
This is not a predictor of an imminent crash of course, but does tell us that the current level of 'frenzy' is still rather mild compared to several prior booms.

### The busts take away most of the gains in the booms

We can see from the individual cycles in the main chart that in most cycles the bust took away most of the gains made in the preceding boom. Worse of all, in several cycles the bust took the market back down to a point lower than it was at the start of the boom (cycles 1, 3, 8, 9, and 14).

That is a lot of cycles where even if you got in at the very start of the boom and remained in for the whole boom and then the bust, you would still be below where you started, even a decade or more later!

The final pair of charts show the percentage of the boom gains that were lost in the bust (left chart below), and the next gain from the full boom-bust cycle (right).



On average across all cycles, the busts took away 68% of the gains made in the preceding booms. In two thirds of cases, the bust took away more than half of the gains made in the preceding boom.

Why is this important? Because many investors fall into the trap of chasing the latter stages of the booms (jumping in for the first time, or doubling down, or worst of all - gearing up). If you get in after the boom is already well on its way, you may enjoy the rest of the boom while it lasts, but you will probably lose all of the gains in the bust that always follows.

This problem is particularly prevalent for first-time investors who nervously wait on the sidelines working up their courage as the boom gathers pace, then inevitably take the plunge in the boom-time euphoria at or near the top of the boom.

Chart F shows the NET gain AFTER what was taken back in the bust – ie the net boom-bust gain. The average net gain from all full cycles was +65.

But in the current cycle we have already gained more than that, at 87%.

### What about pricing and valuations?

As in all booms, prices started out cheap at the start of the current boom (which was at the bottom of the previous crash where everything was over-sold and dirt-cheap). Also, as in all booms, prices have been rising more quickly than underlying profits and dividends, as over-confidence builds, so pricing is getting increasingly expensive. Same as in all booms.

## **Why do booms end?**

The problem is that share markets don't crash when or because they become expensive, or when they reach a certain level of over-pricing. Booms can keep on rising into increasingly over-priced levels for many years before some event or events trigger the eventual bust.

Another problem with pricing measures is that they are often very misleading. For example, at the top of the market near the end of the highest boom of all (cycle 10, the mid 1980s boom), the ASX market pricing was actually very cheap, and provided no warning of the crash that turned out to be sharpest crash of all (October 1987). See - [‘Price/Earnings’ ratios are meaningless – Exhibit A: the 1987 crash \(27-Oct-2025\)](#).

We don't know, of course, what will trigger the end of the current boom, but markets can keep running up into extremely over-priced levels before the final trigger for the crash.

## **The longer and higher the boom, the deeper the crash, and longer the recovery time**

For the US, good examples were the 1920s and 1990s booms, which ran up for a decade before crashing into deep busts that took many years to recover. Those busts were also accompanied by long and deep economic contractions.

## **Government/central bank ‘put’?**

There is a good chance that the current boom may run on for a lot longer yet, simply because governments and central banks don't want it to end!

The ‘Greenspan put’ idea started in the 2000-02 tech wreck, gained prominence in the 2008-09 GFC, and was confirmed in the 2020 Covid lockdown recession crisis. The idea is that in this increasingly populist world, governments and their central bankers will bail out any crisis.

In the GFC and Covid crises, governments bailed out not only banks but inefficient commercial business that ordinarily would have been allowed to fail. They also cut interest rates to zero (negative in some countries) and threw free money at literally everyone and everything. Today there is widespread, and probably justified, confidence that governments and their central banks will do the same again.

As my good friend and former RBA governor Ian Macfarlane says – “Investors believe that the downside risks are small but the upside is unlimited.”

## **But the boom will eventually end**

Even with government/central bank efforts to support economies and markets, the current boom will end in pain for investors here and around the world.

There is a good chance it will be like the end of the 1990s ‘dot-com’ boom, where the triggers for the bust included tightening monetary policy, plus a final realisation that the enormous amounts being spent on infrastructure (in that case it was fibre-optic networks) would not generate the promised returns. Boom-time over-confidence can quickly switch to pessimism and then over-pessimism when everybody starts racing for the exits.

There are often some other related or unrelated events that accelerate this sudden loss of confidence – for example, a military flare-up, or a sudden bankruptcy, or anti-trust attack, etc.

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## Asset Allocation

Because it is the US market's turn to have the bigger boom and bigger bust, when the bust does arrive, the local ASX market will also fall (as it always does in a general sell-off), but there is a good chance it will fall by less than the US, as was the case in the 1920s US boom/bust and the 1990s/tech wreck, which are the most comparable US-led booms.

Therefore, within share allocations in portfolios (the 'growth side of portfolios), I am notionally 'over-weight' Australian shares relative to most peer institutions (eg industry super funds) and diversified funds/ETFs. I am also less than 50% hedged on the currency risk for international share allocations because the AUD always falls in broad global sell-offs, and so the unhedged FX risk partially cushions the falls from international shares.

(This is pretty standard asset allocation stuff, but I include it here to illustrate that the research I do directly plugs into my asset allocation decisions and recommendations for my own and advised portfolios.)

Meanwhile, enjoy the boom while it lasts - albeit venturing into increasingly over-priced territory.

*Ashley Owen, CFA is Founder and Principal of [OwenAnalytics](#). Ashley is a well-known Australian market commentator with over 40 years' experience. This article is for general information purposes only and does not consider the circumstances of any individual. You can subscribe to OwenAnalytics Newsletter [here](#).*

## A note on index data

For this article I used daily closing prices for the US market since 1920. I could use the Dow Jones Industrial Average (DJIA) as it is the longest daily US price index. However the Dow was and still is a very narrow index. It included just 12 stocks initially, and still has only 30 stocks today. Another problem is that the Dow is price-weighted, whereas the broader indexes (and almost all other stock indexes in the world) are market value-weighted. For most purposes when talking about the 'US share market' I prefer broader, market value weighted indexes where available. Incidentally, using the DJIA for the whole period results in very similar boom-bust cycles, with only minor differences.

## A retail property niche offers a lot more upside

Sasanka Liyanage, Steve Bennett

The retail real estate asset class is benefitting from a cyclical upswing, evidenced by increased investor demand, transactional activity and sector-leading returns. Transaction activity across the retail sector reached \$10.7 billion over the past year, surpassing the long-term average by +32%.<sup>1</sup> Since mid-2024, the retail property sector has delivered the strongest returns across all core Australian real estate sectors. This article examines the drivers behind this momentum, the outlook for performance, and the strategic considerations for positioning and exposure.

## Economic tailwinds - exposure to the cyclical upswing

The macroeconomic backdrop has become increasingly supportive of retail demand. Australian Gross Domestic Product (GDP) growth is forecast to accelerate in 2025, supported by stable inflation, rising real wages, and a resilient labour market. If interest rates are stable or lower, that will be supportive of retailer margins and household balance sheets, leaving tenants in a stronger position and consumers with more disposable income.

Real wage growth (wage growth less cost of goods growth) entered positive territory in 2025. As of June 2025, annual real wage growth reached 1.3%, the highest since mid-2020 and significantly above the long-term average of 0.3% per annum.<sup>2</sup> This trend should continue as inflation normalises and wages rise.

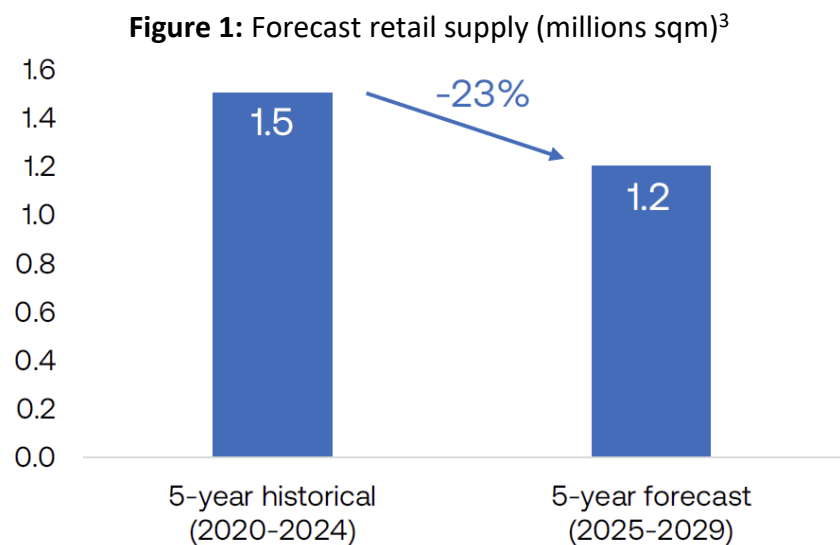
Retail sales and household spending have accelerated, recording the largest annual increase since the inflation crisis. Employment growth and the unemployment rate remain stronger than historical averages, reinforcing consumer confidence and spending power.

Government policy is expected to add further stimulus over the coming years through infrastructure investment, further potential tax cuts, cost of living support and student debt relief. Additionally, population growth continues to exceed long-term averages, driven by labour shortages – further supporting retail demand fundamentals.

## The growing supply gap

The rise in construction costs continues to have a profound impact on new developments. Construction activity across the retail market remains at historical lows, with restrictive supply contributing to an acceleration in rents. In our view, the scale of this supply gap remains underestimated, particularly over the medium-to-long-term. Forecasts suggest 2025 will see the lowest retail supply in over 30 years. See figure 1.

By 2030, only 30% of required new supermarkets are forecast to be constructed.<sup>3</sup> Whilst population growth remains strong it is unevenly distributed, with high-quality catchments capturing a disproportionate share of this population expansion. These areas, however, continue to face restrictive supply conditions. As a result, retail assets in these areas are positioned to benefit from solid demand and limited competitive supply.



Source: JLL, Charter Hall Research



## Navigating divergence - not all retail is equal

The retail asset class is diverse, and performance across its sub-categories has differed significantly in recent years.

Convenience-based retail assets, which are characterised by a greater exposure to non-discretionary retailing (daily essentials such as groceries, medical, hardware and household goods) have outperformed larger, discretionary-focused shopping centres, particularly over the last decade. See figure 2.

Larger shopping centres focused on discretionary retail have faced headwinds as consumer behaviour shifts toward online shopping.

Technological advancements and evolving consumer behaviour have made e-commerce a formidable

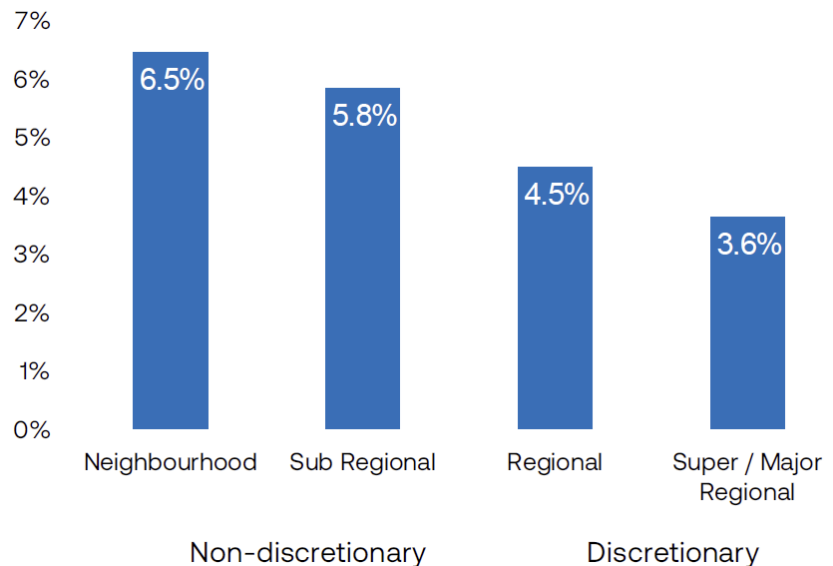
alternative to physical discretionary retail formats. As such, investor returns have been challenged by weaker rental growth, higher capital intensity, devaluations, and fund redemptions.

By contrast, non-discretionary online retail relies on physical store networks, which remain critical for fulfilment. For example, 80% of online grocery sales are fulfilled instore via click and collect, direct to boot and home delivery. Convenience retail assets, typically anchored by one or more supermarkets, benefit from longer leases, steadier demand and lower income leakage due to reduced re-leasing costs.

Sub regional and neighbourhood centres have recorded positive re-leasing spreads over the last six years; whereby new leases signed at lease expiry achieved a higher rent than the previous lease. See figure 3.

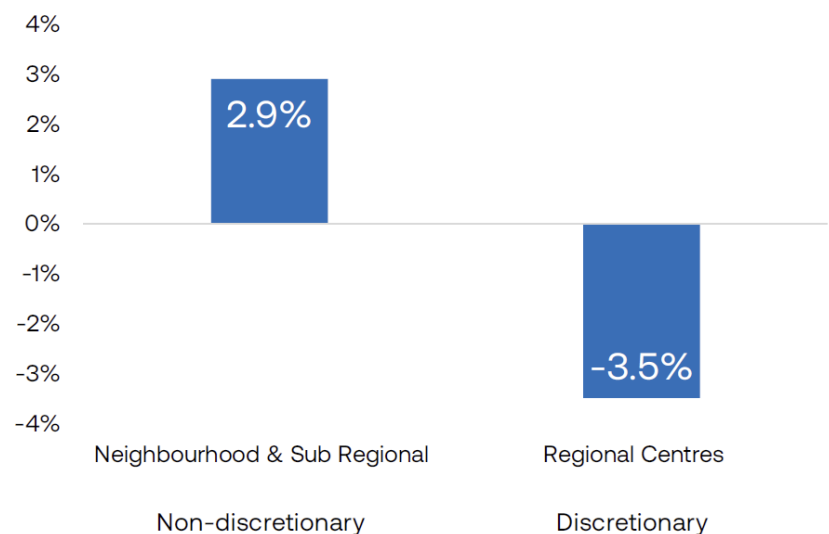
This divergence is reflected in the MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index (MSCI Index). Retail Specialist Funds (which are predominantly exposed to discretionary shopping) have been challenged by lower property valuations, weaker rental

**Figure 2: 10-year annual returns (CAGR)**



Source: MSCI Direct Property Digest, Charter Hall Research

**Figure 3: Average re-leasing spreads between 2018 and 2024**



Source: Urbis, Charter Hall Research.

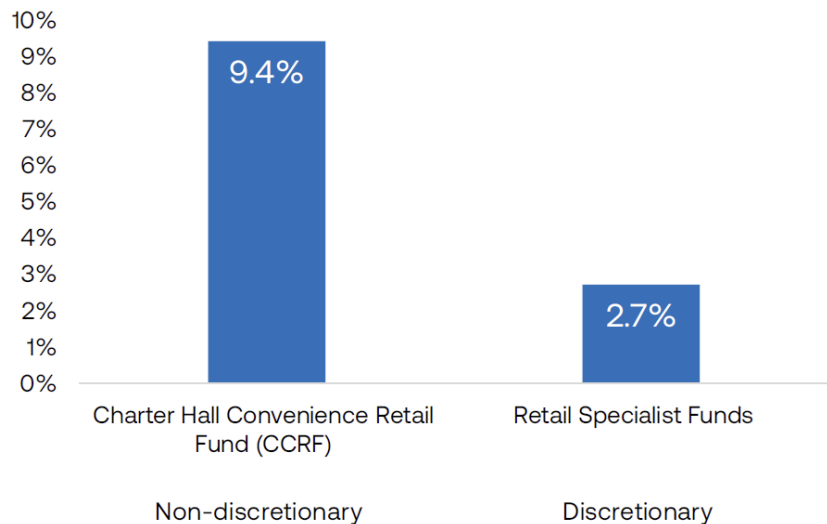


growth and lower returns, leading to higher redemptions and lower capital allocations as investors shift to more accretive sectors.

Longer-term returns highlight this divergence. Charter Hall Convenience Retail Fund (CCRF) has generated annual returns at 9.4%, compared to the broader Retail Specialist Fund sub sector returns at 2.7%, as per the MSCI Index data.<sup>4</sup> See figure 4.

This reinforces the strategic importance of holding well-located, convenience-based retail assets with resilient demand fundamentals. Strong population growth and constrained supply are expected to drive rental and capital value growth, strengthening market confidence in the sector's outlook.

**Figure 4: CCRF vs. Retail Specialist Fund performance, 10-year annual returns (CAGR)**



Source: MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index, Charter Hall Research. At Sep-25.

<sup>1</sup> JLL Research. At 3Q25.

<sup>2</sup> ABS. At 2Q25.

<sup>3</sup> Source: JLL Neighbourhood Centre Supply (October 2025)

<sup>4</sup> CCRF established in August 2025. Pre-formation fund performance is based on predecessor fund metrics and is not included in MSCI historical index results.

*Steven Bennett is Chief Executive of Direct Property and Sasanka Liyanage is Head of Research at [Charter Hall Group](#), a sponsor of Firstlinks. This article is for general information purposes only and does not consider the circumstances of any person, and investors should take professional investment advice before acting.*

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## Why investors should consider adding private equity to portfolios

Gabriel Ng, James Gruber

*The following is an edited version of an interview between Neuberger Berman MD, Gabriel Ng, and Firstlinks' James Gruber.*

**James Gruber:** What is the case for private equity and how should investors think about it compared to the public markets?

**Gabriel Ng:** We believe that private equity has a role to play in an investor's overall asset allocation.

There are a few reasons for that. Number one, private equity, over the long run, has generated premium returns to public markets, and there are some reasons contributing to that. For example, in terms of investing and sourcing for deals, these are typically done with the benefit of the ability to negotiate transaction terms with the seller, the benefit of asymmetrical information, access to private information, ability to do detailed due diligence, and form strong conviction around an investment thesis.

The second structural benefit takes place during the holding period, essentially what private equity fund managers are able to do with the companies that they acquire. Typically, they tend to take a hands-on approach, for example, hiring the right management team, launching new products, entering new geographies, optimising the cost base, optimising the capital structure, pursuing accretive target M&A's [mergers and acquisitions], or even transformative M&A's - these are the tools that private equity managers have at their disposal to improve the company's performance, and ultimately position a company for a sale.

The third part of that is how private equity managers exit or sell the company. Having the ability to control or influence the exit, they are able to determine the exit route which optimises the valuation of the company. Private equity fund managers have the ability to list the company on the capital markets through an IPO. They can sell it to a trade buyer, or they could even sell it to another private equity sponsor.

We believe all these features have enabled private equity to generate higher returns over the long run.

Of course, it comes with greater risks compared to public markets, and investors need to be cognisant of that. It's illiquid, it's less transparent and the investments are held for a much longer horizon.

So, there are trade-offs. But we believe that if you look over a 10, 15, 20 year horizon, you see that private equity has delivered premium returns.

Now, let's look at what environment we're in today, and think about how we position private versus public. If you look at the public markets, there's no denying that markets have done well in the last five years. However it has become fairly concentrated, with the Magnificent Seven accounting for a very meaningful portion of the index.

Therefore, we think of private equity or private markets as a way for investors to further diversify their exposure.

And then you have a valuation consideration as well. Public markets are fairly expensive at this point in time. Private markets could be another way to buy into some of these attractive companies at a more attractive entry valuation multiple.

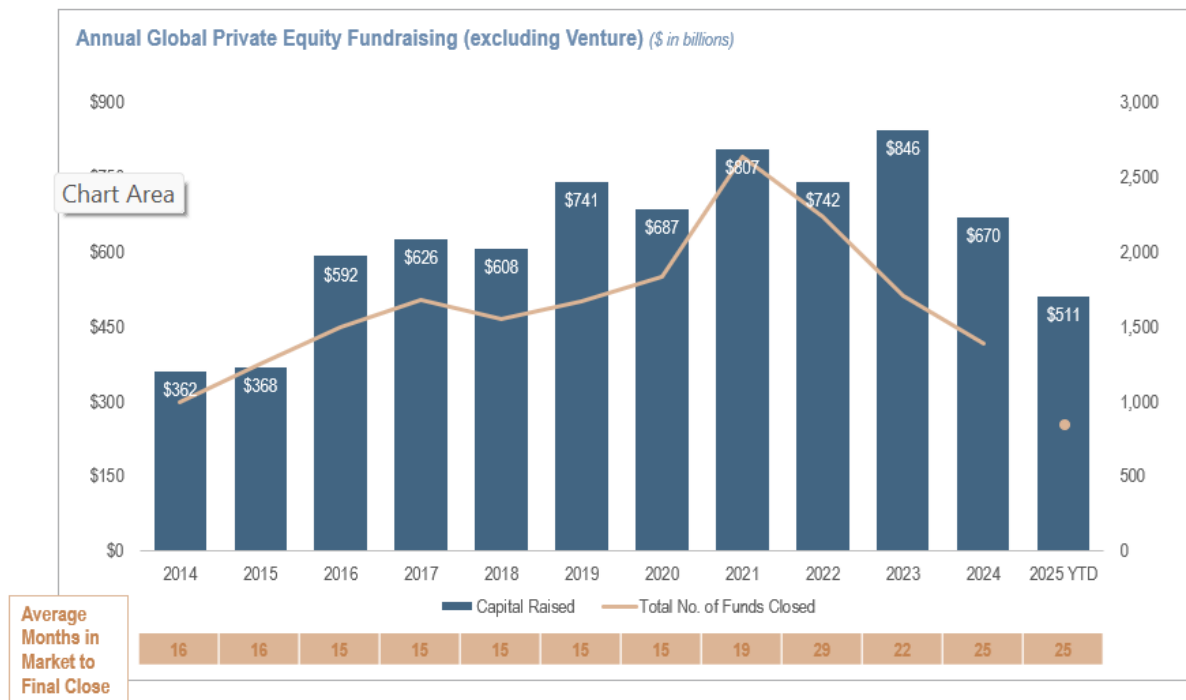
**JG:** The fundraising environment for private equity has been challenging of late. How do you go about navigating that?

**GN:** Fundraising post 2021 has generally been very challenging for the industry at large. Historically, the average time taken for a private equity manager to raise a new fund was between 15 to 16 months. However, in more recent years, it's taken a much longer time, on average 24 to 25 months.

If you think about a fundraising environment, it's rather bifurcated. Many of the proven, established GPs [general partners] have managed to buck the trend. They've managed to successfully raise their funds, sometimes even beyond the target sizes that they go out with in a much shorter time frame.

On the other end, more emerging, less proven managers have really struggled to raise the target sizes or have taken very long to raise the funds.

### Fundraising Has Become More Challenging, with Longer Timelines



**JG:** So-called co-investments and secondary investments are gaining traction - is that part of the opportunity set because of the current environment?

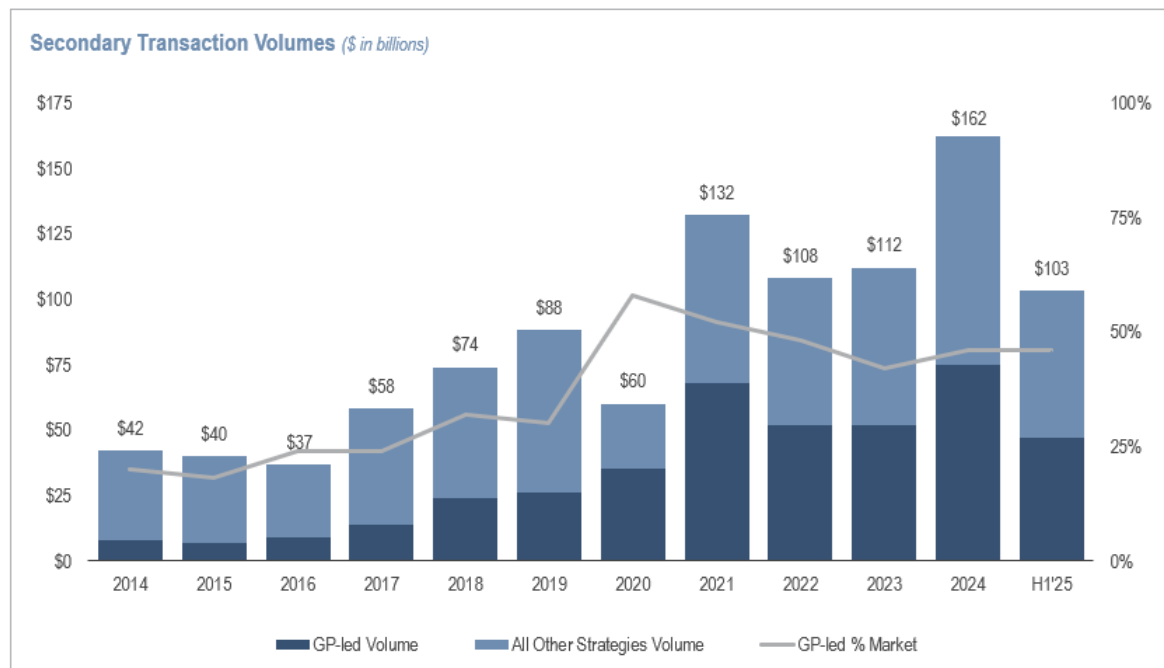
**GN:** Yes, absolutely. At the end of the day, the general partners or the private equity managers are nimble. There are several ways for private equity funds to generate distributions, and equally importantly, for investors like ourselves to be able to partake in some of those attractive opportunities.

One such opportunity in the last two to three years has been GP-led secondaries. This is a situation where a private equity fund manager or GP takes one or a few of the assets in an older fund and moves them to a new continuation fund. And they bring in a new secondary investor to provide liquidity to the older LPs [limited partners], or investors.

So in that way, the general partners are able to hold on to their best assets for longer and to exit them in a more optimal exit environment and continue to compound and accrete value, but at the same time provide a liquidity option to the existing LPs.

If you look at the statistics, GP-led secondaries were a very small part of the overall secondaries market 10 years ago. But today, they represent approximately 50% of transaction volume. Consequently we are seeing many new participants in this market.

## Secondaries Have Grown >4x in the Past Decade, partly Driven by GP-Led Expansion



Source: Jefferies. Data is as of 2025 Q2.

The second way to generate liquidity is through partial equity recapitalisations. This is where a limited partner like Neuberger Berman invests in a company which one of our private equity fund managers has owned for a couple of years. Instead of selling the entire company, some private equity fund managers may choose to sell a small portion of some of the assets to an incoming, direct minority investor like us. In that way, they get to crystallize the valuation and they get to generate some distributions back to their investors. Importantly, they get to retain control for the eventual full exit.

**JG:** Evergreen and semi liquid funds are becoming more prevalent in private equity too - can you explain what they are and how you evaluate the different offerings?

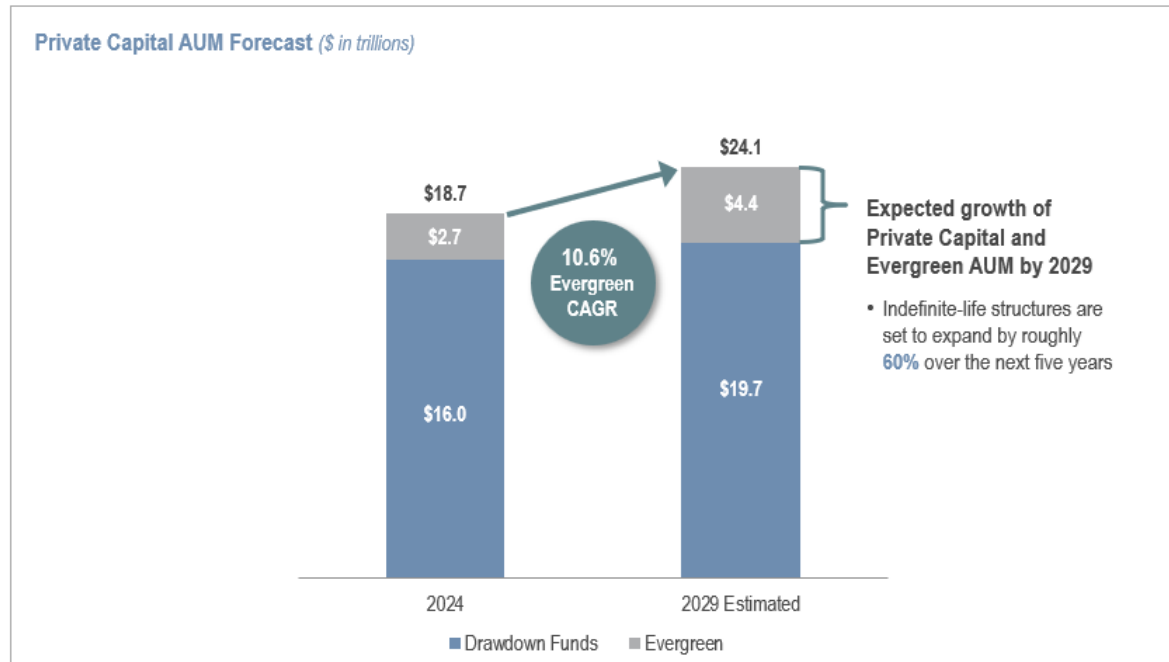
**GN:** If we take a step back, evergreen funds as a percentage of total private markets is still fairly small, at just under 15% of private markets AUM [assets under management].

Semi-liquid, evergreen funds aim to partially mitigate some of the constraints that have prevented individual investors or smaller investors from accessing what we believe is an attractive asset class.

There are a few ways that they go about doing it. First, these evergreen funds provide for periodic subscription and redemption (quarterly or monthly). This basically gives investors more optionality of when to invest and also when to exit (subject to liquidity gates).

Second, the minimum ticket sizes to invest are also more manageable. A lot smaller and more manageable for individual investors to create diversification by investing into one or several evergreen funds.

## Evergreen Funds Are Growing, Now a Sizeable Portion of Private Markets AUM



Source Pitchbook, 2029 Private Market Horizons, May 2025.

But of course, there are trade-offs. In return for having the option for periodic liquidity, not all the capital that is raised for the evergreen fund is deployed into investments. A portion of that, typically 10 to 15%, needs to be reserved in cash. That ultimately is a drag on performance.

And the second point to make is that while there are options for liquidity or redemptions, there are gates as well. There are certain limitations, typically as a percentage of NAV [net asset value] every quarter to which redemptions can be made.

There are also different types of strategies underpinning the various evergreen funds offers in the market so the education process and investors knowing what getting into is a very important factor as well.

**JG:** What does Neuberger Berman focus on in the private equity space?

**GN:** We've been investing in private markets for more than 30 years and have more than US\$150 billion of assets under management. We have a broad ecosystem, including primary funds, co-investments, secondaries, as well as private credit.

If we focus in on what we were just talking about – evergreen funds. We offer a semi liquid evergreen fund and the overarching thesis is to create a very high quality portfolio for our investors. And we see the best way to be able to construct such a portfolio is through co-investments, as well as GP-led secondaries. And the reason being, the ability to conduct asset specific due diligence and select companies on a deal-by-deal basis. Ultimately, we seek to invest in companies that we have high conviction on, that operate in resilient markets, have a market leading position, and, importantly, are managed by a general partner or fund manager that we believe can win in that space

In terms of stage of company, we are not looking to invest in early stage, loss-making or cash burning companies within our evergreen fund offering. We're going after profitable, cashflow generating, established companies that are market leaders in their respective spaces.

*James Gruber is Editor of Firstlinks.*

*Gabriel Ng is a Managing Director of Private Equity at [Neuberger Berman](#), a sponsor of Firstlinks. This material is provided for general informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. You should consult your accountant, tax adviser and/or attorney for advice concerning your own circumstances.*

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