

The background of the slide features a complex financial chart. It includes several overlapping candlestick patterns in various colors (green, red, blue, purple) and multiple thin, multi-colored lines that appear to represent different data series or trends. The overall aesthetic is modern and data-driven, with a color palette transitioning from dark blues and purples on the left to bright oranges and yellows on the right, suggesting a sunrise or sunset over a cityscape.

# Australian unregulated, long-tail liability investors The state of play: FY25





March 2026

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# Introduction

This analysis draws on the annual reports of each long-tail liability investor for the 2025 financial year. Frontier maintains a comprehensive industry database, which includes a wide range of unregulated entities such as compulsory third party (CTP) insurance schemes, long service leave schemes, workers compensation (WC) schemes and redundancy trusts. These investors typically operate with long term investment horizons, reflecting the long-tail nature of their liabilities, although work cover schemes generally have shorter liability durations than CTP schemes.

To benchmark these investors, we combine multiple data sources to compare performance outcomes, understand each scheme's portfolio structure, assess risk appetite and identify emerging investment trends that may provide forward looking insights. Our analysis focuses on:

	Investment strategy considerations
	Solvency
	Asset allocation trends
	Performance



Unregulated, long-tail liability investors generally have greater flexibility to take on higher levels of investment risk, especially when compared with regulated insurers. As a result, their portfolios tend to hold a larger allocation to growth assets relative to defensive assets. We continue to see strong demand for mid-risk assets such as unlisted property, unlisted infrastructure and private credit, which remain highly attractive within portfolios. These assets help reduce return volatility, provide diversification beyond equities and bonds, and deliver stable and consistent performance over time.

Ultimately, the 2025 financial year has been a stable and positive period for unregulated schemes, with no major structural changes compared with 2024. Investment performance remained strong, supported by relatively high allocations to growth and mid-risk assets. Equities and real assets performed well over the year, contributing meaningfully to total portfolio outcomes, as explored later in this report.

As cash and bond yields have normalised in recent years, we have also seen a renewed interest in defensive assets as a source of stable income. However, we expect schemes will continue to prioritise diversification through mid risk and growth asset classes. This approach supports long term solvency, improves portfolio resilience and positions portfolios to achieve returns that exceed the inflation profile of the underlying liabilities.

# Long-tail liability investors

## Investment strategy considerations for long-tail investors

Long-tail liability investors typically manage long-duration liabilities which are highly sensitive to interest rate movements and claim costs, which often rise faster than CPI. The need to grow assets at a rate above the liability growth rate generally requires a higher risk appetite and higher investment return objective, which in turn drives a higher allocation to growth assets in the portfolio.

Solvency levels can also influence investment strategy with well-funded schemes having optionality around de-risking to preserve their capital position or using the buffer to take more risk and further improve funding levels. In the absence of any capital injections to improve solvency, less well funded or under-funded schemes will often accept a higher level of investment risk in an effort to improve their solvency level.

Investor	Return objective (p.a.)	Estimate of absolute return objective <sup>1</sup> (% p.a.)	Growth allocation (%) <sup>2</sup>	Solvency (%)	Liability duration (yrs)
CTP 1	CPI + 5.0%	7.5	44.8	152.5	13.0
CTP 2	AWE + 2.0%	5.0	39.0	156.0	14.5
CTP 3	CPI + 3.25%	5.75	43.9	174.9	18.0
CTP 4	CPI + 3.0%	5.5	33.0	134.6	14.3
Other LDI 1	N/A	N/A	45.2	107.0	N/A
Other LDI 2	6.25%	6.25	64.6	101.1	N/A
WC 1	CPI + 2.5%	5.0	36.0	103.0	10.9
WC 2	CPI + 3.0%	5.5	43.9	146.8	13.0
WC 3	N/A	N/A	43.3	141.0	3.3
WC 4	7.5% (budgeted)	7.5	45.2	101.0	6.9
<b>Average</b>	<b>~CPI + 3.5%</b>	<b>6.1</b>	<b>43.9</b>	<b>131.8</b>	<b>CTP = 14.9, WC = 8.5</b>

Source: Annual reports. Data shown only for schemes where publicly available.

1. Assuming CPI is 2.5% p.a. and AWE is 3.0% p.a., 2. Growth allocation consists of Australian equities, international equities and private equity.

# Solvency and discount rate

## Improved solvency levels

One of the main financial goals for liability driven investors is to maintain a sufficient level of solvency. Chart 1 shows most schemes have maintained or improved their solvency level over time. This is largely due to the rise in discount rates coupled with strong growth in asset values.

Discount rates and solvency are directly related. When discount rates increase, the present value of liabilities decreases, which should improve solvency levels, assuming investment returns are also at least in line with expectations.

Solvency levels are also affected by the net flow of capital into or out of the scheme. In recent years, some schemes have received additional contributions from their state government sponsors (recorded as income in the financial statements), whereas historically these schemes typically returned dividends to their respective governments.

While discount rates have been more stable over the past few years, they declined in FY25, due to lower interest rates over this period. Despite lower discount rates, solvency has improved, boosted by strong investment returns and increasing asset values, particularly within equity markets.

Chart 1: Solvency over time

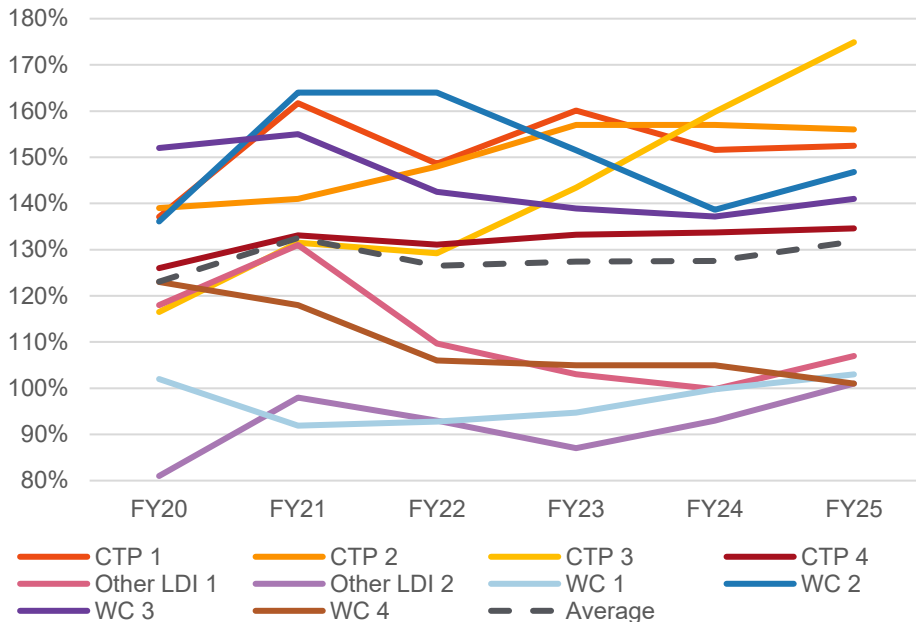
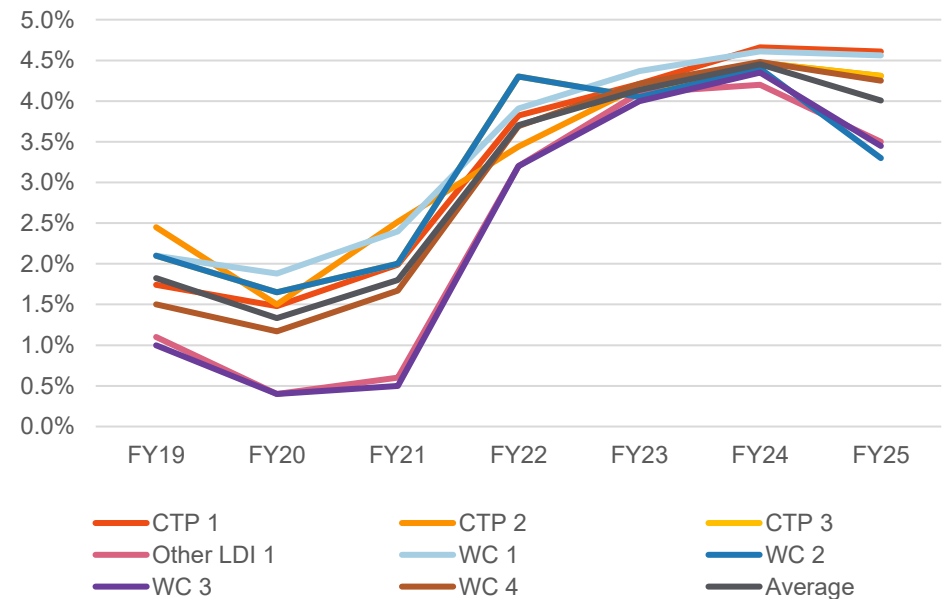


Chart 2: Discount rates over time



Source: Annual reports. Discount rates shown are subject to availability of data.

# Trends in asset allocation

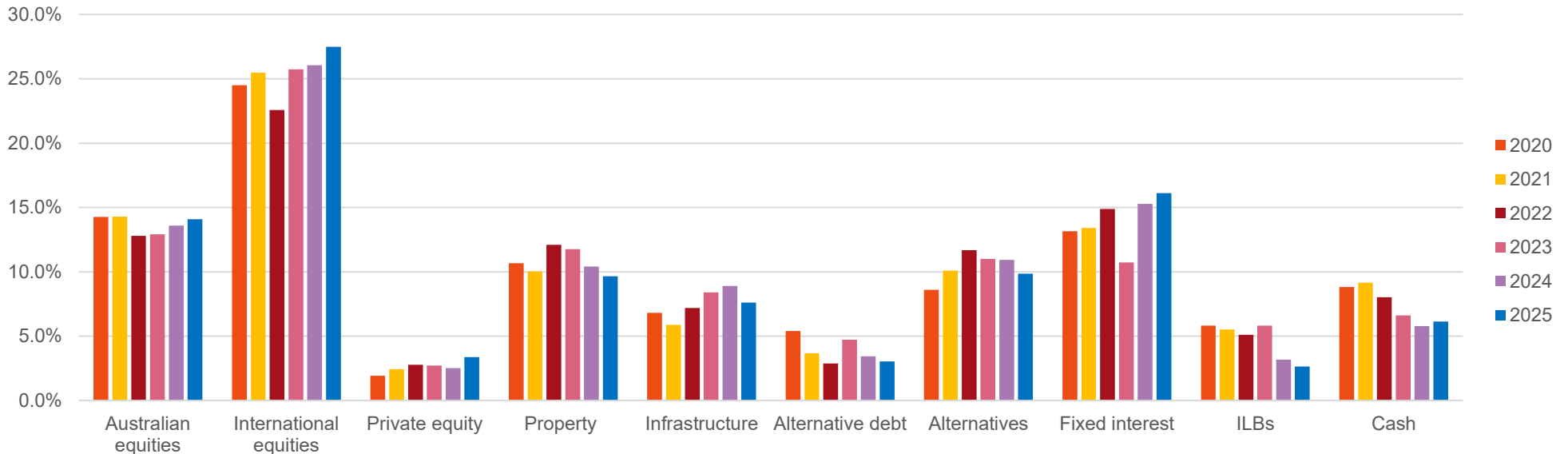
Over recent years, we have seen a clear trend among long-tail liability investors reducing allocations to defensive assets and redirecting capital toward mid-risk assets such as infrastructure. However, in FY25, this trend appears to have stabilised, likely reflecting that most insurers have now reached their target allocations in this sector.

Allocations to Australian and International equities have risen marginally (especially international equities), perhaps drifting higher or attracting inflows off the back of very strong returns in recent years.

Property allocations continue to decline. We note a general bias for infrastructure exposure over property and the softer performance of the property asset class.

Defensive allocations remain more attractive than they have been in the past, again offering stable income return underpinned by higher base rates and improved real yields.

Chart 4: Change in average asset allocations



Source: Annual reports. Alternatives may include a broad range of asset classes depending on how the insurers have chosen to group investments. Typical inclusions are infrastructure, hedge funds and multi-asset class strategies.

# Trends in asset allocation

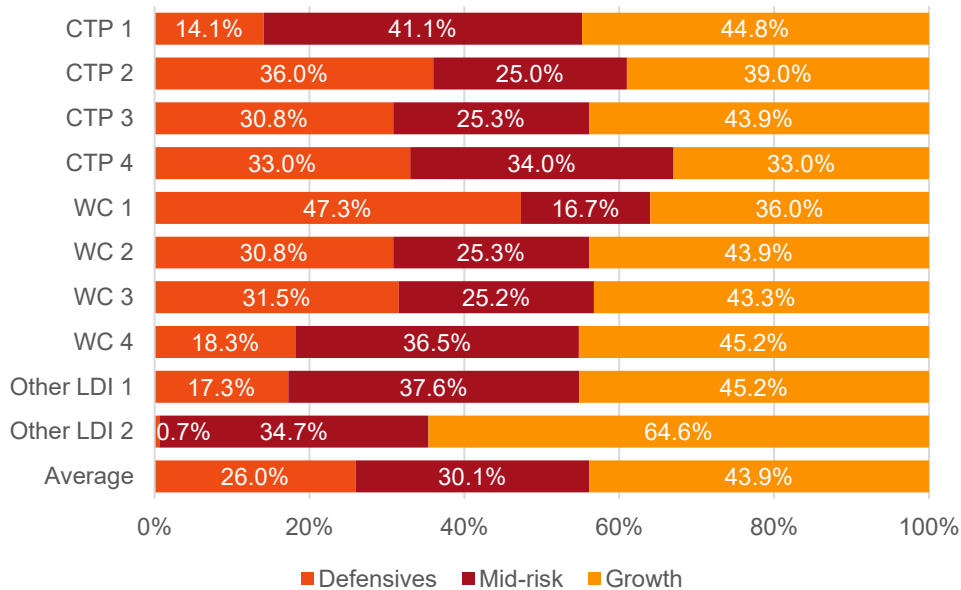
## Changes through time

Long-tail liability investors typically aim to maintain funding ratios within target ranges while achieving investment return objectives that exceed liability growth. Given these objectives and their risk appetite, portfolios generally exhibit higher allocations to growth and mid-risk assets relative to defensive investments.

Chart 6 illustrates how asset allocations have evolved from 2020 to 2025. On average, allocations to growth and mid-risk assets have increased, with only a few exceptions. This increase has been largely funded by reductions in defensive asset holdings.

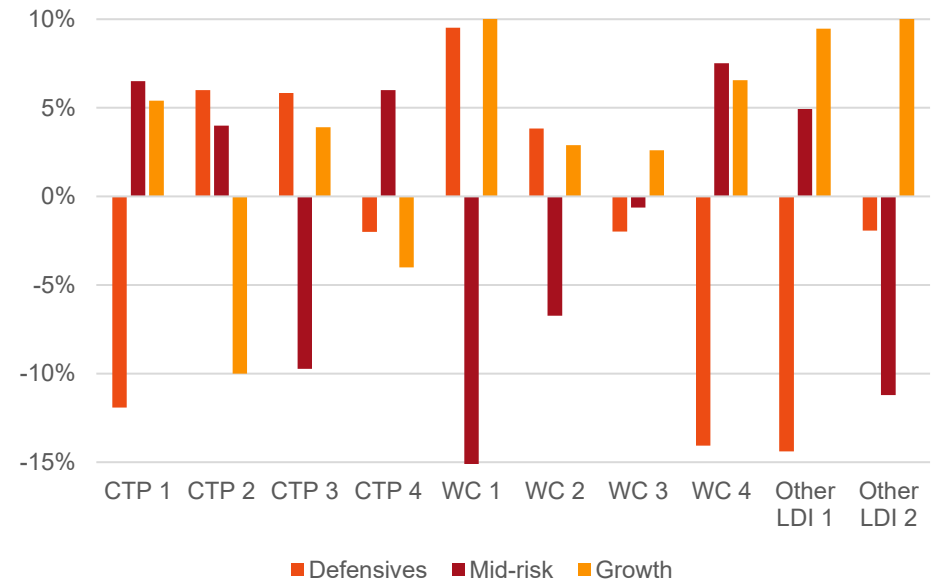
The shift toward higher risk assets, particularly equities, helps increase the probability that assets will grow over time to cover liabilities, which typically rise faster than CPI. Nevertheless, defensive assets like fixed interest continue to play an important role by providing stable income, downside protection, and in some cases, a direct hedge against liability duration.

Chart 5: Asset allocation by asset grouping for FY25



Source: Annual reports. May not sum due to rounding.

Chart 6: Asset group change from FY20 to FY25



Source: Annual reports

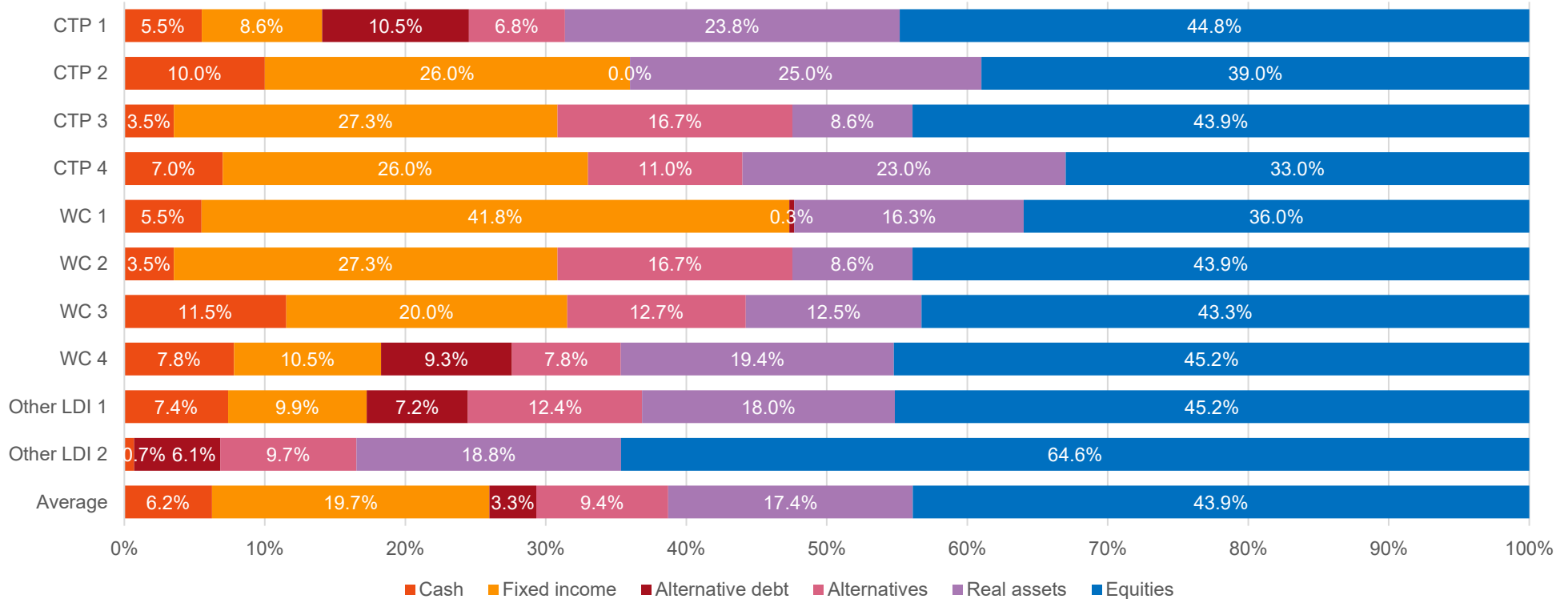
# Trends in asset allocation

## High proportion of mid-risk and growth assets

At the asset class level, there were no major changes between the mix of assets from 2024 to 2025. However:

- Cash allocations increased, primarily driven by the changing interest rate environment which has made cash yields more attractive. We expect cash holdings to either continue rising or remain at current levels.
- Fixed income allocations also increased, although exposures varied across the cohort. These allocations may include a mix of inflation-linked and nominal bonds.

Chart 7: Asset allocations for FY25



Source: Annual reports

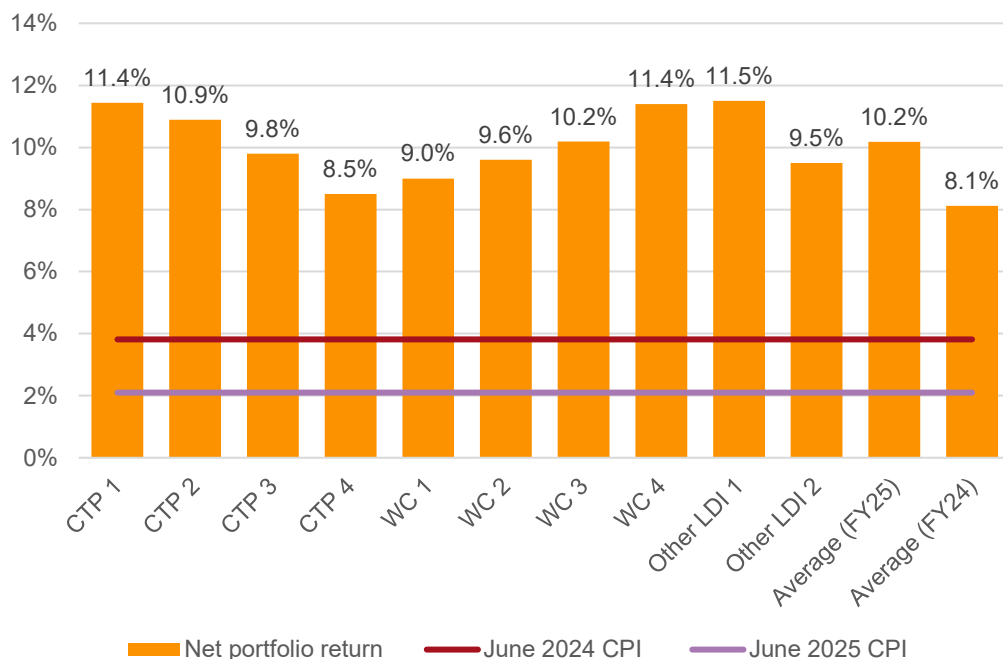
# Performance

FY25 was a strong year for this investor group, with portfolios returning an average of 10.2%, up from 8.1% in FY24. Individual results ranged from 8.5% to 11.5%.

Despite an uncertain macroeconomic backdrop, performance was supported by robust returns from equity and real assets. Equities performed as expected, but a notable driver of overall results was infrastructure, which delivered a 14.4% return in FY25. The property sector also improved meaningfully, recovering from -9.9% last year to 2.2% this year, adding positively to portfolio returns.

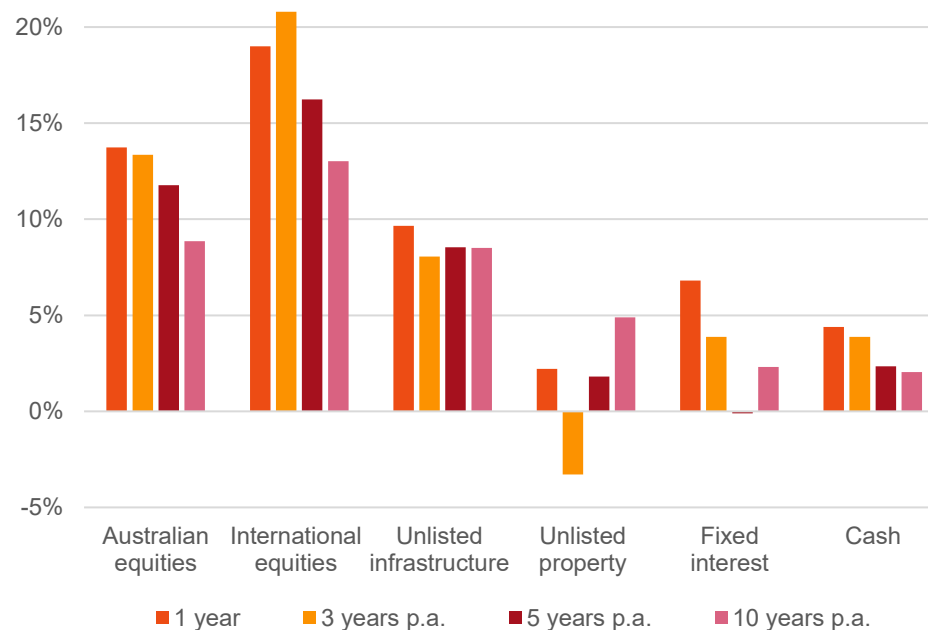
On average, these long-tail investors aim for a CPI + 3.5% return objective. With inflation moderating, the probability of achieving this long-term target has improved. Although inflation may rise again as interest rates are cut, these insurers remain well positioned to exceed their return objectives in the near term.

Chart 8: Returns by scheme



Source: Annual reports

Chart 9: Asset class returns at 30 June 2025



Source: Frontier

# The final word

Long-tail liability investors remain focused on achieving their key objectives: maintaining appropriate solvency ratios and meeting long-term return targets. Their portfolios continue to favour growth and mid-risk assets due to diversification benefits, lower overall volatility and reliable income generation. In recent years, allocations have gradually shifted away from defensive assets and toward mid-risk assets, such as private credit, unlisted property and infrastructure because of their attractive risk-adjusted return profiles. However, rising interest rates have made bond yields increasingly compelling, which may draw some investors back toward defensive assets.

The longer investment horizons and relatively flexible regulatory settings in which these investors typically operate allow them to take on additional risk with confidence. By increasing their exposure to growth and mid-risk assets, they are well positioned to capture market upside opportunities and enhance the likelihood of outperforming their liability benchmarks.

Across the board, asset classes have performed largely in line with expectations, with real assets in particular demonstrating resilience and delivering robust returns. We expect investors to continue increasing allocations to this cohort of mid-risk assets.

Importantly, investment decision-making is strongly influenced by governance frameworks and implementation capabilities. Factors such as the presence of a board and/or investment committee, as well as whether their investment program is handled internally or outsourced, play a significant role in shaping governance processes, strategic decisions, and how approved strategies are executed.



Frontier Advisors has experience working with a range of non-APRA regulated liability-driven investors across Australia, helping create diversified portfolios, fit for both the current and future investment environment. Please contact our dedicated LDI & Government Team if you would like more information on how we can help you customise your portfolio.



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## Frontier Advisors Pty Ltd

ABN: 21 074 287 AFS Licence: 241266

Level 17, 130 Lonsdale Street  
Melbourne, Victoria 3000  
Tel: +61 3 8648 4300

Level 21, 83 Clarence Street  
Sydney, NSW 2000

[frontieradvisors.com.au](http://frontieradvisors.com.au)  
[@frontier\\_adv](https://www.instagram.com/frontier_adv)