

Investment update

What's happening in the markets – and what it means for your super

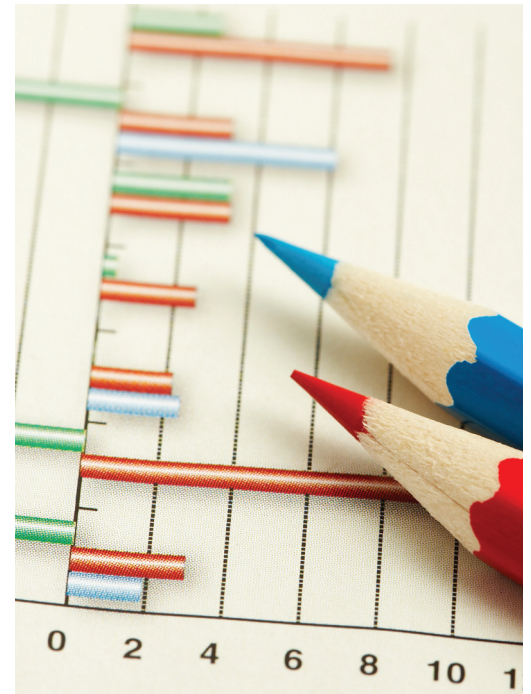
The 2008–09 financial year has been one of the most challenging years for investors since the Great Depression in 1929 and the 1973–74 oil crisis. Markets around the world have been affected and governments have made major efforts to reduce the impact of the global financial crisis by injecting billions into their own economies. Whilst positive signs of recovery began to emerge in March this year, the uncertainty continues. Despite this, the economic and market outlook is much brighter going into 2010 than it was at the start of 2009.

As much as the events of the year sharpened the focus on investment risk, it also showed that opportunities can arise in the most unlikely circumstances. While the year will be remembered largely for the dreadful decline in market prices following the collapse of global investment and economic confidence, it also saw one of the most extraordinary periods of rising share prices in many years.

Recovery has always followed a downturn

Whilst the size and speed of the market downturn took many investors by surprise, the fact that the market went down should come as no shock when you look at how markets have performed historically. If you look back over the past 100 years investment markets have, without fail, moved in a consistently repeated cycle where periods of strong growth have been followed by a sudden downturn. Whilst the size of the downturns has varied considerably, the market has always made a recovery. In every instance, the recovery went on to exceed previous market highs, with share market returns, in many instances, performing better than other asset classes after a crash. However, it may take a considerable time to return to the highs of 2007 and this may only happen after a few cycles.

Volatile times like these can feel bewildering. There is some comfort to be had in the consistent cycles that markets have historically shown over time. While you can be assured that recovery should follow this downturn, the thing we don't really know is how long it will be before a sustained recovery gets underway.



Returns for superannuation investment options to 30 June 2009

NGS SUPER INVESTMENT OPTION	ONE YEAR (%)	AVERAGE OVER FIVE YEARS (% PA)	AVERAGE SINCE INCEPTION (% PA)	INCEPTION DATE
Diversified	-10.35	5.12	5.61	Oct 1999
Shares Plus	-12.90	4.70	5.15	Oct 1999
High Growth	-10.40	na	-8.33	July 2007
Conservative	-5.07	na	-3.29	July 2007
Defensive	-3.57	4.82	5.03	Feb 2003
Australian Shares	-15.47	7.05	9.73	Feb 2003
International Shares	-10.87	1.38	4.85	Mar 2003
Green Shares	-16.16	3.26	2.79	Nov 2001
Property	-21.45	3.30	6.11	Sep 2002
Diversified Bonds	4.14	5.61	5.65	Oct 1999
Cash	4.31	5.03	4.76	Oct 1999

Remember, past performance is not an indication of future performance. Your individual return might be different depending on when your contributions are received and whether you have switched options during the year.

Between July 2008 and February 2009 the investment environment was extraordinarily difficult. However March 2009 saw the markets start to turn and all the NGS Super investment options started to deliver positive returns for the first time in months. The positive returns continued over the following months, with double figure positive returns posted for the Shares Plus, High Growth, Australian and International Shares options, helping to recover some of the ground lost in the preceding months. June 2009 saw flatter returns, dampening recovery expectations somewhat. Overall, due to the sharp falls in the market in the first three quarters of the financial year, returns for the year were mostly negative.

The table on page 1 shows the performance of the Fund's 11 investment options.

What has happened in the markets?

Last year, world markets responded to dramatic changes in financial and economic conditions, resulting in three distinct periods of market performance: consolidation, freefall and rapid recovery. Briefly we'll explain the events that shaped market performance over this time.

Between July and mid-September 2008, investment markets held steady after the difficulties of the previous year. However in September 2008, the failure of US investment bank, Lehman Brothers sparked a rapid and unprecedented meltdown of the world's banking system, triggering a similar response in the global economy.

Over the following months, governments collaborated in providing colossal financial support to most of the world's major banks, resulting in budget deficits that may take decades to repay. Not surprisingly, consumer and business confidence plunged. By early March the US share market had lost 45% of its value in just six months. Most other world markets suffered similar falls.

Unexpectedly, from 7 March 2009 as it became clearer that the economic situation might not be as bad as had been expected in the first few months of 2009, share markets staged one of the most powerful rallies in living memory. Over the next three and a half months the US share market rose by 35% and the world share index by over 40%, showing once again it is impossible to predict market behaviour in the short term. By June 2009, the rate of economic decline had slowed dramatically, while market confidence improved.

Fortunately, Australia has avoided the brunt of the recession due to a number of factors. Firstly, we were in a strong financial policy position before the downturn and this was helped by relatively high interest rates that could be cut quickly and a Budget surplus that allowed the Government to massively increase spending to stimulate economic growth. Secondly, our strong trade relationship with China provided a buffer, giving us time to react to the downturn, and this significantly reduced the trade shock. Finally, our currency was able to adjust quickly, shielding us from the worst of the crisis.

However, whilst our economy has performed exceptionally well, our share market has largely followed the fortunes of world markets. With world share markets having risen so far, so quickly, it is almost inevitable that times of uncertainty may continue. Despite this, while the economic difficulties are not likely to resolve in the short term, markets are looking forward towards recovery.

How is NGS Super dealing with the downturn?

Without exception, super funds across Australia have been negatively affected by the market downturn this year.

Regardless of whether markets are up or down, at NGS Super we are always rigorous in our investment approach, constantly looking to take advantage of opportunities to provide strong, long-term returns to our members. Our share managers have taken advantage of opportunities to buy into quality companies at low prices, which has delivered positive results as share prices recover and we are confident this trend will continue over the long term. Investors have understandably remained very cautious and this has resulted in falls in the price of property and infrastructure assets. The good news is that falls in these asset classes, may provide good buying opportunities. On the other hand, bond prices rose strongly through most of the past year as investors sought security. However, with most major governments now running record budget deficits, the supply of government bonds is set to increase dramatically, causing a fall in prices to attract buyers.

We are constantly looking for good and sound opportunities and, at the same time, take great care to manage the risk of those investments. We are currently seeking to place NGS Super in the best possible position to take full advantage of the recovery.

Helping you with your super choices

We know that everyone's situation is different and members are at different stages in their working lives with different tolerances for risk. With that in mind, NGS Super offers 11 different investment options to suit our members' investment needs. Making the best choice for your situation is essential.

Making an investment choice can be confusing and there are many different things to take into account. At NGS Super, we aim to help you make informed decisions about your super so you can make the most of it. NGS Super can now provide financial advice through NGS Financial Planning. Our experienced financial planners can help you choose the best investment option or mix of options for your situation.

Contact us

To make an appointment with one of our financial planners or to speak to our Customer Service Team, call 1300 133 177, Monday to Friday, 8 am to 6 pm (EST).

Important information

This information is general information only. Any recommendations, statements of opinion or financial advice have been prepared without taking account of your personal circumstances, investment objectives, financial situation and needs. You should read the relevant Product Disclosure Statement and assess your own situation before you make a financial decision based on this information.

