

NGS Super CEO update

June 2010

(incorporating Board Meeting outcomes)



Anthony Rodwell-Ball
Chief Executive Officer, NGS Super

CEO update as at 29 June 2010

As we rapidly approach the end of the financial year, it is timely to reflect on a number of major issues impacting not only on NGS Super but the wider superannuation industry:

What's been happening in investment markets?

The last two years have been a wild ride, with one of the largest plunges in markets occurring in the November 2007 to February 2009 period, followed by a rapid turnaround in March 2009 and nine months of very strong returns. Markets faltered then surged in the first quarter of 2010, and have undergone a significant downward correction in May and June.

How quickly things can change.

Rather than focus on the extraordinary continued growth of China, and the fact that the major economies are still generally recovering well from the Global

Financial Crisis (GFC), all of the focus has been on the debt and fiscal situation of some of the weaker southern European countries. Economic uncertainty coming out of Europe has seen fear re-emerge as the dominant emotion in the markets over the last two months. Stock prices plummeted through late April to late May/early June, recovered somewhat mid-June and then declined at the end of June.

This saw the Australian share market index fall from a high of over 5000 to a low around 4250 before closing June at around 4400. This is around the level where we increased our Australian shares weighting earlier this year.

With the Australian dollar being something of a barometer of global investor confidence, this period of greatly increased uncertainty saw the currency market shift focus from robust commodity prices to global uncertainty. As a consequence, it has tended to mirror the share market moves over the past two months, falling sharply from the 90s to just above 80 cents at its low, before recovering strongly to around 88 cents (and easing in turn to 85 cents).

To the extent that there were any positives through this period, NGS Super's post- GFC decision to shift the focus of our fixed interest portfolio away from corporate debt and towards long-dated sovereign bonds has provided at least some diversification benefit.

Investment Strategy

We have maintained our investment strategy through this recent period of uncertainty. While, resource shares apart, the fall in share prices has seen

some modest improvement in share valuations, this has not been sufficient to warrant a change in strategy, and as long term investors, the Board has the view that as it is impossible to time the market, the well tested and proven strategy of 'time in the market' will yield the best long term returns for members. It's understandably very hard to get one's mind around the many complicating factors influencing global investing in 2010, but members should be reassured that:

- NGS employs excellent internal professionals and advisers who are very experienced in managing money through different investment cycles and who use a range of sophisticated analytical tools to better understand market outcomes
- The Fund is invested through professional managers who are carefully selected and monitored and who are proactive in their day-to-day management of their mandates
- The NGS Board very regularly meets to review performance at the manager and sector level, and is decisive in restructuring portfolios and allocations to better manage risk and maximise returns
- The Fund now has a range of financial advice offerings for members, from single issue telephone advice to face to face personal meetings with qualified and experienced financial planners who can assist you to better understand your options
- The Fund continues to be committed to provide appropriate education to members to assist them in improving their financial literacy.

It's your money. We have the great privilege and responsibility of managing it to the best that we are humanly able, in very challenging times, and we believe that we do this. We offer twelve different investment options, and encourage members to contact us if your risk appetite has changed and you wish to discuss this, either to confirm your personal strategy or discuss a change.

We'll be genuinely delighted to help you.

Henry and Cooper Reviews

Two major reviews impacting superannuation have been completed recently:

- The Henry Review: most recommendations in this review have not been adopted, and the most controversial one, the 'Resources Super Profit Tax' has had the apparent effect of further destabilising Australian share markets in May and June. The government compromise with the mining sector should restore lost confidence and (over time) see some improvement in mining sector share prices.

A significant co-related policy decision affecting Australian's future retirement savings lies in the increase to the SGC to 12%, progressively from 2013. Some in the community may not like this, but the superannuation industry's stance on this is fairly unambiguous: it is considered to be an excellent policy setting as it has been long established that 9% annual contribution to super is too low to ensure adequacy in retirement. For people under 40, this is too far in the future to be of concern, but with the government significantly reducing contribution limits (to \$25,000 maximum after July 2012 – except for those with super balances under \$500,000), a last minute dash to the finish line to top up super for those above 50 will become a less viable option.

The message has to be 'save as much as you can, as early as you can'.

- Cooper Review into Superannuation: while the findings have not been released yet by the government, it appears likely that the major recommendations will revolve around increasing back-office efficiency and reducing costs across the board in the system. As an Industry Fund, NGS Super is already committed to this.

June Board Meeting: outcomes

The Board and its various Committees met on Monday 28 and Tuesday 29 June and major topics discussed at these meetings included:

Investment Committee: Investment environment and results

The Investment Committee and Board comprehensively reviewed investment returns by investment option, asset sector and investment manager for the period ending 31 May. The Board noted and discussed market volatility in May and June, the unsettling news coming out of Europe, the consequences flowing from the May 2010 Budget announcements, North American economic data and developments in China and other emerging markets. The Board concluded that despite an apparent softening of the economic recovery overseas, market analysis and forecasts suggested that the medium to long term outlook was still positive, and that the Board's current medium term asset allocations provided the best possible settings to yield above median returns over the long term.

It was noted that the year to date return for May for the Diversified Option in the Accumulation Division was 10.94% (versus the SR50 'Balanced' median* of 11.52%), a second quartile result, and that the Diversified Option was in the top quartile of results over three, five years and seven years, based on the SuperRatings May 2010 survey.*

The Committee (and Board) also discussed the following:

- A presentation on 'Heuristic Chart Analysis': a complex suite of charts analyzing investment markets by sector, geographical location and asset class
- The Custodian's 'Rolling Manager Returns' by asset class, and asset allocation reports for May 2010
- Papers prepared by JANA (asset consultants) on 'Growth and Defensive Alternatives', 'Global Real Estate Investment Trust Review' and 'Fees on Unlisted Investments'
- A report on China's current economic situation arising out of a recent visit by the Investment Counsel
- The Fund's current liquidity situation, noting that it was excellent.

Risk, Audit, Finance and Compliance Committee (RAFC Committee)

The RAFC Committee, and subsequently the Board, reviewed, discussed, and where appropriate, approved:

- The financial operating results for both the Fund and the Trustee for the period ended 31 May 2010 and noted that as Trustee operating income was better than planned, and expenses were well contained within budget it was likely that the Fund would close the year with better than forecast operating outcomes

- The proposed FY2011 Trustee Business Plan and operating budget
- The final report from the Fund's Auditors (Ernst & Young) describing their findings arising out of the audit that they had performed on the transition of back-office functions from Precision Administration Services to Mercer
- The usual suite of Compliance and Risk Management reports.

Marketing Committee

The Marketing Committee and Board reviewed reports outlining marketing and communications activities undertaken since the last Board meeting. The following were noted, and where appropriate approved:

- The detailed FY2011 Marketing Plan
- The April/May 2010 Marketing and Communications Report
- A report on branding research that had recently been completed.

General matters

The Board:

- Discussed and approved the Fund's 'Responsible Investment Policy'
- noted and endorsed the recommendations of the Insurance and Claims Review Committee
- noted that the Human Resources and Remuneration Committee had met in May and approved the changes to the policy guidelines that had been proposed.

Next meetings

It was noted that the next meetings of the Board and Committees would be as follows:

Investment Committee meeting:

Monday 9 August

Board meeting:

Tuesday 10 August

Contact us

Level 16,
99 Bathurst Street,
Sydney, NSW 2000

www.ngssuper.com

Telephone 61 2 9273 7900

Fax 61 2 9283 8783

* SuperRatings survey of SR50 Balanced funds