

# How we construct our investment options at NGS Super

At NGS Super we are maintain a deliberate focus on delivering our members strong returns over the long term.

A key part of our focus at NGS Super is providing investment options for you, our members, which meet your needs in saving for your retirement. When we construct and manage the investment portfolios that underlie our investment options, we consider a large range of factors.

In this *Investment Update* we take a look at some of the thinking behind the construction of the portfolios underlying our investment options.

## Developing our long-term strategy in the face of ongoing change

An obvious place to start is the expected returns for each asset class (for example Australian shares, property or fixed interest) together with the level risk we expect to encounter in achieving overall returns. We also actively seek to diversify risk by investing in a range of different asset classes that can be expected to behave differently from one another during periods of stress.

In making our assessments about expected return and risk, we have a substantial focus on identifying major trends and changes in the macro environment and determining what their likely impacts might be.

The development and implementation of our long term investment strategies require significant discipline, and a degree of courage. A consistent feature of investment markets is their volatility and however closely we consider the decisions we make for the long term, there is always the possibility that short-term market volatility will have an impact.

Currently, the biggest event influencing our investment approach and portfolio structure is the rapid emergence of the huge economies of Asia, China and India. The rise of these developing economies is happening on a scale that is difficult to comprehend. To demonstrate the magnitude of what is happening, one leading global bank has made the following speculations on growth in the Asia-Pacific region:

- 1) China's economy will overtake that of the US by 2020.
- 2) By 2030, the Chinese economy will be twice the size of the current US economy and 20% larger than the current size of the entire world economy.
- 3) By 2030, India's population will exceed that of China.
- 4) By 2040, India's economy will exceed the US's.
- 5) By 2030, the combined global share market value of the US, EU, and Japan will more than halve from 62% 27%; whilst China and India's combined share will rise from 10% to 34%.



The challenge in the face of this enormous future change lies in the complexity surrounding decision-making about how to take best advantage of the potential growth in Asia. For example, over recent years owning shares in Australian resources companies has been significantly more profitable than directly investing in companies in China and India. The picture painted by the statistics outlined suggests that this is something that may change significantly over the next couple of decades.

## Our members' portfolios

Over recent years we have attempted to set up our members' portfolios to take advantage of the industries and countries that are best placed to benefit from the major changes described above. The following points describe how this approach has been applied to some of the specific asset classes we have in our investment portfolio (as opposed to the investment options themselves).

### 1) *The international shares asset class*

We have a substantially overweight investment in international markets and companies who are likely to benefit the most from the dramatic growth in developing economies. We have achieved this by:

- appointing two investment managers who are specialists in emerging market investments
- appointing two investment managers who specialise in domestic Chinese shares. We were the first super fund in Australia to take this step
- investing in a dedicated portfolio of global resource shares, again we were the first super fund in Australia to do this

### 2) *Private equity investments*

Small companies that are yet to be listed present some of the most exciting opportunities in emerging markets. We have a significant investment in emerging market private equity and are currently considering increasing our investment in this sector.

### 3) *The Australian shares asset class*

We have sought to significantly increase our investment in those parts of our share market that are most likely to benefit from ongoing emerging market growth, including making large investments in:

- resource companies through the appointment of a dedicated resources manager
- small capitalisation stocks which have a very high weighting to small resource companies that have so far been highly sought after by Chinese and Indian investors who are seeking to secure their future supply of strategic commodities.



## Performance of the Fund

Over the 22 years NGS Super has been around<sup>1</sup>, the Diversified Option has returned an impressive 9.1% p.a. (as at 31 December 2010). Over the same period, inflation has averaged 3.1% p.a. which means that the Diversified option provided a "real return" of 6% p.a. over the 22-year period. This is a great result, given that share markets are generally assumed to produce real returns of 4% to 6%.

The performance of the Fund in the last ten years has been impacted by the Global Financial Crisis (GFC); however the NGS investment options continue to deliver very strong relative returns to members across all time periods (as you can see in the table below). When we compare the returns generated by the NGS Super Diversified Option against other super funds (as reported by the SuperRatings 50 Balance Fund survey), the Diversified Option is the **only** Fund to be placed in the top 10 across all time periods.

### NGS Super Diversified Option versus SuperRatings SR50 Balanced median

As at 31 December 2010	Month	Quarter	Financial Year to Date	1 Year	3 Years % pa	5 Years % pa	7 Years % pa	10 Years % pa
<b>NGS Super Diversified option</b>	<b>2.24%</b>	<b>3.68%</b>	<b>8.91%</b>	<b>6.57%</b>	<b>0.37%</b>	<b>4.87%</b>	<b>7.27%</b>	<b>6.15%</b>
versus SR50 Balanced median	1.69%	2.76%	7.04%	4.59%	-1.97%	3.01%	6.28%	5.05%
Rank out of 50	4	4	2	5	4	6	8	6
Quartile	1	1	1	1	1	1	1	1

<sup>1</sup>The inception date of the Fund was June 1988 and the investment option that is now known as the Diversified option was called Capital Stable. The Asset Allocation of the Fund from inception is not the same as the current asset allocation. From 1999 the Capital Stable option was modified into the Diversified option.

## Which investment option is right for you?

Everyone has different investment needs, particularly as we work toward saving for retirement. NGS Super offers 11 Investment options (12 for Pension members) that are tailored to meet your needs now and in the future. They have been designed based on a range of factors, including individual's appetite for risk, proximity to retirement, or ethical views.

For more information on the investment choices available, visit the website at [www.ngssuper.com.au](http://www.ngssuper.com.au) where you can download a copy of the *Investment Fact Sheet* and view a wide range of super and investment related information. You can also contact an NGS Financial Planner or access limited financial advice over the phone by calling the Customer Service Centre on **1300 133 177**.

## How to contact us

Visit our website [www.ngssuper.com.au](http://www.ngssuper.com.au), or contact our Customer Service Team or your local relationship manager at any time. We're here to help you.

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### Important information

The information provided in this Update is general information only and does not take into account your objectives, financial situation or needs. Before making a financial decision, please assess the appropriateness of the information to your individual circumstances, read the Product Disclosure Statement for any product you may be thinking of acquiring and consider seeking independent advice from a licensed or appropriately authorised financial adviser.

Past performance is not a reliable indicator of future performance.

