



Investment Update

July 2009

All about investment risk

When it comes to investing, the one thing of which we can always be certain is that there will always be uncertainty.

It's true that we can try to predict where markets might go and the sorts of returns we expect different types of investments to make. In reality though, what happens in the markets and the returns an investment actually delivers can be a very different outcome. For example, in the last two **Investment updates** we've talked about market cycles, highlighting the patterns we see time and again that provide a guide to how markets behave. However, we can't pinpoint with absolute accuracy how the market or particular investments will perform. Investment risk contributes significantly to this uncertainty.

Generally, few investment returns can be guaranteed since most investments involve an element of risk. Simply, investment risk is "the chance that your investment's performance will be different to what you expect". This definition includes the possibility of your investment going up or down.

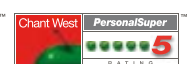
By understanding the different risks, we can understand how each one can impact an investment and we can better appreciate why investment performance can be unpredictable. Here we'll briefly discuss some of the risks that can affect an investment.

Inflation risk

Inflation, which is measured by the Consumer Price Index or CPI, refers to the rate at which the cost of goods and services changes. This then dictates the buying power of your money, so as inflation rises, buying power decreases. Inflation risk is the risk that costs will rise and your money will lose its buying power. Over the long term, if your investment return is not at least keeping up with CPI, inflation can gradually chip away at the value of your portfolio.

Liquidity risk

If an asset is said to be liquid, it means it can be readily converted into cash. Liquidity risk arises when an asset can't be sold fast enough to prevent a loss. Sometimes an asset needs to be sold quickly, but a lack of buyers can mean it can't be readily sold. Different types of investments have different levels of liquidity. For example, shares which can be sold on the share market in a matter of minutes are considered to be highly liquid whilst property, which can take weeks or months to complete a sale, is not as liquid.





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Economic risk

When talking about economic risk, we mean the possibility that a change in the economy, usually a downturn, will negatively affect your investment. Economic risk can spring from a range of sources, including the health of an economy or the possibility that a country's economy is being mismanaged. Economic risk is tied fairly closely to political risk since government decisions that affect an economy, such as a change in tax or interest rates, can also influence your investment returns.

Political risk

There are a couple of different aspects to political risk. One is the risk caused by laws that differ between countries when investing internationally. The laws of one country may conflict with the laws of another, which in turn may pose a risk for investors. This risk may be so high that an investor may decide not to go ahead, even though other features of the investment may be very attractive.

Another aspect is the risk that comes from a change in government policy that may affect investment outcomes. In some instances, a government may take an action, for example cancellation of trade contracts, civil instability or even war, which prevents an investment making the expected return.

Horizon risk

Generally, different investment types have different investment timeframes that tend to give the optimal outcomes. The risk that comes with the investment timeframe is known as the horizon risk. The level of time horizon risk can change with an investor's willingness or ability to invest for a particular period of time, usually for the long term. If the investor holds their investment for a longer period, they may be less likely to experience a loss and more likely to experience a gain over that time. To show what we mean, growth assets such as shares and property have a higher level of horizon risk since the shorter the time invested, the greater the likelihood of a loss or variation in the investment value. However, investments in assets like cash or bonds are less likely to be affected by a shorter investment timeframe.

Currency risk

Currency risk is due to differences between currency values when investing overseas. This risk lies in the possibility that one currency might change, leaving the investor with a loss, or an outcome that is less than expected. For example, there's a risk that an investment will go up in one currency but the movement of that currency in relation to the home currency may negate any gains the investment has made.

Credit and counterparty risk

Credit risk, also called default or counterparty risk is the chance that one or both parties to a contract will default on the agreement, leaving either or both parties out of pocket.

How does NGS Super manage risk?

All of these risks we've mentioned make the investment marketplace seem like a minefield, but NGS Super has robust structures and policies in place to manage the investment risks for its eleven investment options. Each option has a different risk level, designed to align to our members' different risk profiles (this has been covered in previous **Investment updates**).

Our investment policy ensures that the risks of investing are managed to the greatest degree possible. We reduce risk by carefully spreading our investments across different asset classes and by using a number of different investment managers. NGS Super's Trustee Directors regularly review how our investment managers are performing and make any necessary changes to better manage these risks.

What if I have more questions?

Call our Customer Service Team on **1300 133 177** between 8 am and 6 pm, Monday to Friday (EST).

We're here to help you!

Important Information

The information in this investment update is of a general nature. 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 (PDS) and assess your own situation before you make an investment decision based on this information.

