

Market Update – March quarter 2011

Periodically, it's important to gain a view of the current world economic and market situation in order to understand the factors that might be influencing the performance of your super investment over time.

In this month's *Investment Update* we take a look at global and local market and economic performance in the first three months of 2011 and the outlook for the remaining year.

Global outlook

Global growth gathered momentum in early 2011, with industrial production at its highest levels in over two decades in a number of economies, including the US and Germany. The positive growth trend, which emerged in middle of 2010 can be attributed mainly to government interventions to boost investor confidence and improved financial stability in the form of financial stimulus and rescue packages. It is testament to the strength of the global economy that even following a time when financial intervention was required, share markets remained strong even in the face of significant turmoil in North Africa and the devastation of the Japanese tsunami.

However, growth is expected to slow by mid-2011, largely because real oil prices have doubled over the past year. Since the early 1970s, the times when the oil price has doubled have generally led to a recession in the US and many other developed economies. This strong historical trend indicates the global economy could now be at risk in the face of this significant oil price rise.

With respect to the recent rise in oil (and, indeed, food and other commodity) prices, the potential for further sharp increases in coming months depends on whether the demand from Asia continues to outstrip

the capacity of global producers to increase supply.

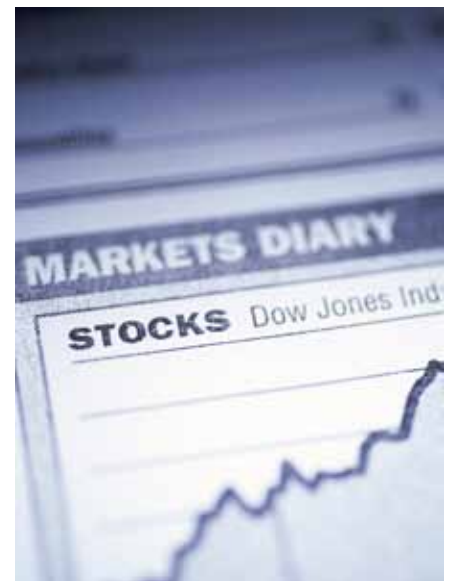
In some economies, however, global growth is expected to continue despite inflationary pressures. There is good reason to believe that most central banks won't raise interest rates too quickly (because this slows growth).

Australian economic overview

The outlook for Australia looks steady: a booming resources sector – that will continue to boom unless there's another global financial shock – and a largely flat non-resources sector.

Even though we're entering the third year of the current upturn, Gross Domestic Product (GDP) growth has yet to push past 3.0% and is not much higher than that of the US. Moreover, the impact of the Queensland floods makes it unlikely we will reach a growth rate of 3.0% before 2012.

The failure of GDP to reach 3.0% has been blamed on lacklustre household expenditure (consumption and residential investment). This can in part be attributed to interest rate increases in 2009 and 2010, but the Reserve Bank of Australia (RBA) is not expected to ease interest rates any time soon while investment remains high.



Why oil prices matter

Oil prices are largely controlled by the major oil-producing countries. These countries generally try to set prices at a level where they can maximise profits without sending the world into recession.

Pressures on oil prices usually come from restrictions on supply (due to natural or man-made disasters) or strong demand (usually from strong growth in major economies). At present, we have both these scenarios playing out.

The problem with rising oil prices is that oil and its derivatives (plastics, gasoline etc.) are key to the production, packaging and distribution of so many items. Very few products are immune from a major increase in the price of oil.

When production and transport costs rise, producers can either pass this on to consumers, which causes a rise in inflation and/or a reduction in consumption, or they can absorb the extra cost, which reduces their earnings and ability to purchase materials for future production. Both these scenarios generally lead to one thing: slow or negative economic growth.

Given the RBA has already increased interest rates quite significantly (from 3.0% to 4.75%) it is conceivable that the next increase may not occur until the end of 2011. Further rises in 2012 are likely to depend on the durability of strong growth in China and the broader global economy.

In Australia, over January, February and March, financial markets reacted positively to the improved global economic outlook, with equities showing strong growth.

What does this mean for the NGS Super investment options?

Reasonable global and local growth has produced positive results for the quarter for all asset classes except Australian small companies. Natural resources, listed global property and overseas small companies all produced returns in excess of 5.0% for the quarter.

Returns for the NGS Super Diversified Option (the Fund's default option) reflected this trend over the quarter, producing good returns and contributing well to a significant return for the financial year to date. Other good performers for the quarter were the Shares Plus, Australian Shares and International Shares options, reflecting the positive market growth experienced world-wide.

As at 31 March 2011

NGS Super investment options	First Quarter 2011 (%)	Financial year to date (%)	One year (% p.a.)	Five years (% p.a.)	Ten years (% p.a.)
Diversified	2.77	11.93	7.50	4.22	6.26
Defensive	2.00	6.55	9.26	5.10	N/A
Shares Plus	3.18	15.06	6.50	3.26	6.08
Australian Shares	3.41	19.82	9.95	5.44	N/A
International Shares	3.39	11.10	1.05	-0.25	N/A
Green Shares	2.19	8.67	3.86	0.84	N/A
Property	3.38	15.04	13.43	3.20	N/A
Diversified Bonds	1.73	3.90	6.10	5.23	5.38
Cash	1.20	3.66	5.03	4.74	4.62
High Growth	3.14	13.17	8.49	N/A	N/A
Conservative	2.49	9.21	7.55	N/A	N/A

The table above shows the net return after investment fees, tax and the asset-based fee. Past performance is not a reliable indicator of future performance.

Important information

This 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 planner.



Action points

- Considering the investment option your super is invested in is something that can always benefit from the assistance of a financial adviser. You can make an appointment with an NGS financial planner by calling the Customer Service Team on **1300 133 177**. Remember your first appointment is free!
- If you have made the decision to switch investment options, you can make your change online after signing into your online account or simply download an *Investment switching* form from the 'Forms & Publications' section of the website at www.ngssuper.com.au

How to contact us

Visit our website 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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