

# Investment Update 2010–11

We are pleased to report another consecutive year of solid market growth across most major asset classes and a very strong 10.47% return for the Diversified option. But these encouraging returns have not come without drama, with persisting worries about European and US debt, political unrest and a string of natural disasters sending ripples through markets and weakening overall investor sentiment. For Australian investors a compounding factor was the extraordinary strength of the Australian Dollar which had a very substantial adverse impact on the returns from overseas assets.

Despite these ripples, as we enter the new financial year, many companies around the world are making record profits, reducing debt and increasing shareholder dividends. Although this has not fully translated into higher share prices in the short term, patient investors are likely to be rewarded over the long term.

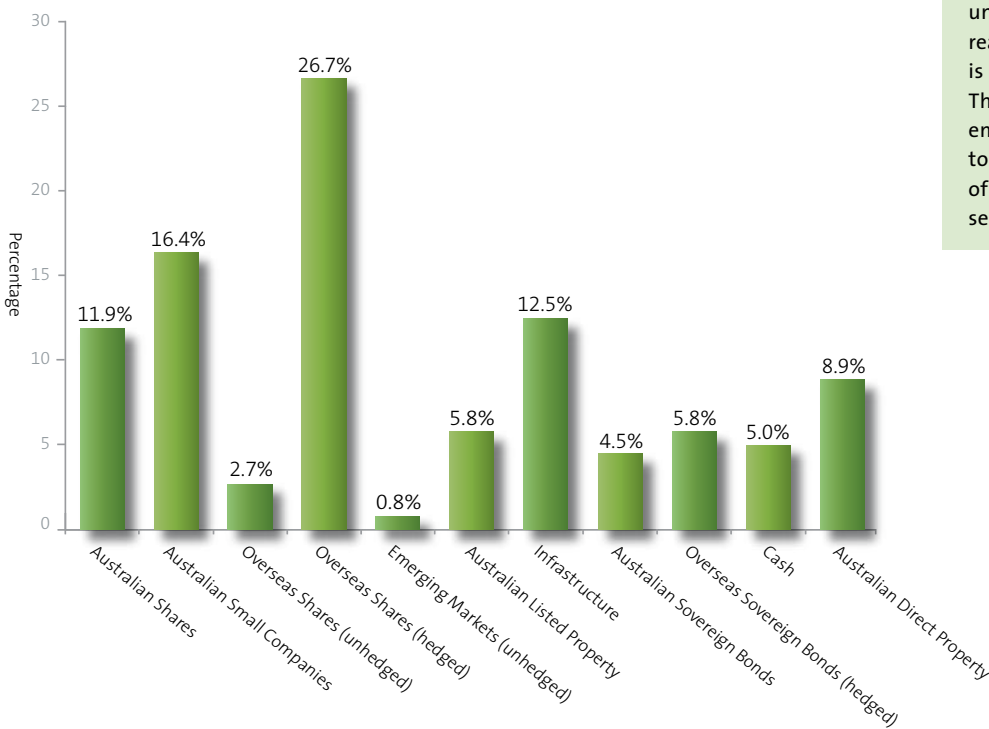
## The year in review

The 2010/11 financial year kicked off strongly, with share market growth fuelled by a range of global developments (including Australia's mining boom) improving investor confidence. However the fragility of this recovery was soon highlighted by the emergence of a range of economic and financial risks that eroded investor confidence and saw some marked volatility in both share and bond markets. These risks included: marked uncertainty as to the European debt crisis and whether it could be resolved; the unexpected emergence of revolutionary movements in North Africa and the Middle East; and an extraordinary series of major natural disasters, most particularly earthquakes in New Zealand and Japan and floods in Australia.



There were also growing concerns as to China's economic growth in the face of persistent inflation, and sharp swings in sentiment in the US as political deadlock acted to delay action to reduce the deficit and control the debt situation. Australian investors faced the added uncertainty of a very sharp rise in the Australian Dollar.

Despite the uncertainty of the economic environment, returns were positive across all the major asset classes for the year to 30 June 2011. However, as highlighted in the following chart, the return from international assets varied enormously depending upon whether the currency component of these investments was “hedged” back to the Australian dollar or not. For example the US sharemarket rose by 28% in US dollar terms over the year, but with the Australian dollar appreciating by 27% against the US dollar over the year, the return from US shares was barely positive in Australian dollars. This is the second year in a row that we’ve seen solid market growth since the dark days of the global financial crisis.



Past performance is not a reliable indicator of future performance.

## NGS Super’s investment strategy and performance for the year

NGS Super’s returns through 2010/11 benefited from maintaining an above average investment in shares through the year and having these shares actively managed, largely by smaller investment managers who performed extremely well and, on average, significantly outperformed the broader market indices.

We also sought to focus on trying to capture the medium to long term opportunities created by the unusual combination of the very positive medium term growth drivers for many companies and quite extreme short term political and market volatility.

Two particular areas of opportunity identified by the Investment Committee were the surprising weakness of the Chinese share market and the strong demand from Chinese and Indian companies seeking to buy small to medium sized resource companies to try to ensure future resource security.

In response to these opportunities NGS Super has made a significant investment in the domestic Chinese share market as well as appointing two managers to run specialist Australian and global resources portfolios for the Fund.

### Are we facing another global financial crisis (GFC)?

Despite the continued and occasionally frenzied media attention, Europe and the US’s fiscal problems aren’t necessarily a forerunner of a second GFC. Rather the Greek crisis confirms that Europe hasn’t yet come to terms with the fallout from the first financial crisis. While it has undoubtedly unsettled financial markets, the real impact of the Greek problems is likely to be confined to Europe. The rest of the world has largely emerged from the GFC and continues to pursue growth, providing a range of opportunities for patient investors seeking value over the long term.



## Returns for superannuation investment options to 30 June 2011

Despite the uncertainty and volatility that marked the year, overall 2010/11 was a very good year for our investment options. In particular, the Diversified option recorded its second consecutive year of double digit returns. The 10.47% outcome for the year placed the option in the top five funds for the year in the SuperRatings Balanced Fund survey and in the top 10 funds over most longer periods. The table below shows the Diversified option performance compared to the SuperRatings Balanced median fund return.

As at 30 June 2011	1 Year (%)	3 Years % pa	5 Years % pa	7 Years % pa
<b>NGS Super Diversified</b>	<b>10.47</b>	<b>2.90</b>	<b>4.13</b>	<b>6.56</b>
versus SR50 Balanced median	8.71	1.24	2.49	5.75
Rank	5/50	9/50	5/50	9/50
Quartile	1	1	1	1

The following table shows the performance over the one and five year periods to 30 June 2011, and since inception, for all superannuation options.

NGS Super investment option	One year (%)	Average over five years (% p.a.)	Average since inception (% p.a.)	Inception date
Diversified	10.47	4.13	6.39	Oct 1999
Defensive	7.70	5.27	6.12	Feb 2003
Shares Plus	12.18	3.17	6.36	Oct 1999
Australian Shares	15.11	4.66	11.29	Feb 2003
International Shares	7.70	0.24	5.29	Mar 2003
Green Shares	6.09	0.51	4.11	Nov 2001
Property	18.11	3.06	8.06	Sep 2002
Diversified Bonds	5.05	5.51	5.64	Oct 1999
Cash	4.89	4.76	4.69	Oct 1999
High Growth	10.90	N/A	1.27	Jul 2007
Conservative	8.72	N/A	2.77	Jul 2007

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.

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