

# Investment Update

November 2008

In our investment update for October 2008, we wrote about the volatility in the market which has been extraordinarily high and has led to some of the best and worst days that we have experienced in markets. This has led some people to seek to avoid the volatility by switching into cash, at what may be the worst possible time to do so.

## Cashing in at times of uncertainty

Often in times of uncertainty, people seek to move into cash investments for the certainty of return that it can provide. It is true that cash can provide a certain return and this has been reinforced by the decision of the Australian Government to guarantee bank deposits over the next three years. However, what they cannot guarantee is the level of return that will be provided and how this will compare to inflation and the potential returns on market based assets.

Another factor to consider in this discussion is individual risk tolerance – that is, the extent to which members experience heightened levels of anxiety when markets are volatile and share markets decline and so superannuation accounts experience negative returns. In this case, members may decide that they can sleep better at night if they have the greater certainty of cash returns, and so individual circumstances and preferences have to be respected. But from the long term perspective, historical experience has established that cash as an investment does not yield the attractive returns available in a balanced portfolio made up of shares and other asset classes.

## Reducing returns on cash

While the returns on cash have been high until recently and many have taken advantage of this by investing in high interest rate bank accounts through the internet, this is unlikely to be the case going forward. From its high of 7.25% p.a. from March 2008 to September 2008, the Reserve Bank of Australia cash rate has been reduced by 0.25% in September, a full 1% in October and a further 0.75% in November, leaving it at 5.25% p.a. as at November 2008. There are expectations that these cuts will continue and while they are good for borrowers, they are not good for cash investors who will see their returns diminish.

## The impact on inflation

The other bad news for cash investors is that while cash rates are falling, the level of inflation in the economy remains high. The Reserve Bank of Australia has forecast that the rate of inflation to December 2008 will be 4.5% p.a. and that this will only moderate to 4% p.a. by June 2009 and 3.5% p.a. by December 2009. Given that cash rates may



reduce to these levels or possibly below, the **real returns** on cash may fall to zero or possibly become negative.

## What does it mean for your super?

NGS Super's Accumulation Division and Pension Division Diversified Options have the investment objective of outperforming inflation by 3% per year. In other words, the goal is to achieve real returns of 3% per year and this has been achieved over the longer term. This is significantly higher than the **real returns** of approximately 0.75% (5.25% cash rate less the 4.5% inflation rate) that is currently available on cash.

The cash that is held within NGS Super is predominantly held in a Treasury Fund which is invested with Australian banks or subsidiaries of Australian banks which are eligible for the Government guarantee. The Treasury Fund is only invested in bank deposits and paper and carries the highest possible credit rating of AAAM, indicating that the return can not be negative on any given day.

However, this cannot be said for the **real returns** on cash, which we believe will be low and possibly negative. We are therefore focused on investing in good quality market based assets rather than cash in order to achieve our investment objectives over the longer term.



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## 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.

### Real returns

Real returns are returns after taking account of inflation. The higher inflation is, the higher the level of returns that are required to deliver the same real returns.