

Investment Update

September 2008

In our investment update for 2007–08, we put the annual return for the most recent financial year of –4.7% for NGS Super’s Accumulation Division Diversified Option into the context of the previous four years cumulative return of 71.2%. This has led to an average annual return for the five years of 10.3%, well ahead of the option’s investment objective of exceeding the consumer price index by 3% per year, indeed exceeding it by over 7% per year.

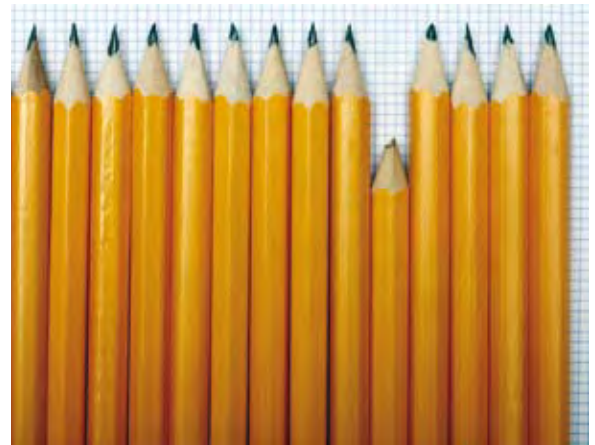
We also spoke about the opportunity that the volatility in the market provides to purchase good quality assets, including shares and fixed interest investments that are now much cheaper than they were a year ago. This ability and willingness to purchase good assets at low prices is the hallmark of value investing, made famous by the likes of Warren Buffett. This approach to investing is widely considered to lead to the best returns over the long term.

This is indeed how you should view your superannuation - an investment for the long term. The recent negative returns across all superannuation funds provides you with the opportunity to purchase a greater share of our good quality assets than you would have been able to if returns had continued their strong run of the previous four years.

Your superannuation contributions are used to purchase units and recent negative returns mean that the value of those units has decreased and hence you are able to buy more of them. This negates, to some extent, the fall in the value of the units that you already hold. Importantly, it provides you with an opportunity to grow your superannuation significantly when the value of all of the units that you hold again increases. We have started to see that in the first two months of the 2008–09 financial year, with NGS Super’s Diversified Option delivering a modest return of 0.5%.

Recent events and volatility

You will have seen in the media recently coverage of the first interest rate reduction in Australia in seven years, the strong employment figures, the fall in the Australian dollar, the United States Government supporting its mortgage agencies, the bankruptcy of Lehman Brothers and the rescue package for financial institutions being negotiated by the United States Congress. All of these events have contributed to very high volatility in short term returns and regulators have moved to reduce this volatility by placing a temporary ban on short selling. The fact that your contributions are made periodically into superannuation also helps to smooth out some of this volatility.



If you are salary sacrificing into superannuation, you are also saving a significant amount of tax which you would have had to pay if you had taken the contribution as after-tax income. This tax saving provides you with a significant buffer which means that you have a greater amount of after-tax dollars, even with the recent declines in superannuation, than had you not made these additional contributions. This focus on after-tax outcomes is a topic that we will return to in future communications.

I am looking forward to the opportunity that the current investment environment provides to make sound investments in good quality assets at low prices, which I am confident will deliver the long term returns that will help you to achieve your goals for a comfortable retirement. While it won’t always be a smooth ride, as we have experienced over the past year, I will continue to communicate with you as the challenges and opportunities present themselves.



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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.

Short selling

Short selling refers to the practice of selling a stock that one doesn't own with the intention of buying it back at a lower price and hence profiting from its decline. The party engaged in short selling usually borrows the stock in order to short sell it and pays a borrowing cost to the party that has lent the stock for this purpose. Short selling has contributed to the high volatility in the market as a number of stocks, particularly financial stocks, fell significantly as they were subjected to short selling and rose again sharply as the short sellers bought back the stock. A good example of this is Macquarie Bank which experienced its worst day ever as it was short sold and its best day ever when it was subsequently bought back. In order to reduce this volatility and speculation, regulators have placed a temporary ban on short selling. It should be noted that NGS Super does not lend out its stock for the purpose of short selling but we do employ investment managers who can take advantage of the opportunities presented by short selling by, for example, buying Macquarie Bank on the day that it was oversold due to short selling.