

# YOUR FUTURE



ENERGY INDUSTRIES®  
SUPERANNUATION SCHEME

Energy Industries Superannuation Scheme  
Accumulation and Executive Schemes - ABN 22 277 243 559

Six months to 31 December 2009

## IMPORTANT NOTE ABOUT FRAUD:

Please make sure you keep your super statement in a safe place. Do not provide anyone with access to it as there have been cases in Australia where identity theft has occurred by use of super statements.

## The markets



**Daniel Park**

### Investment Director - FuturePlus

In September 2008, the bankruptcy of Lehman Brothers transformed the financial world. Panic ensued, triggering a run on money-market funds and financial institutions. The global financial crisis has been widely analysed and I won't revisit it here but it is worth remembering how dramatic and severe the crisis was and how close the world financial system came to breaking down.

More than twelve months on from that shock, a number of closely watched indicators have returned to more normal levels: credit markets have started to flow; commodity prices have risen; goods and capital are both flowing more freely once again through the global economy. All this as a result of a globally coordinated government response using all the necessary monetary (interest rates) and fiscal means (essentially government spending or tax cuts) they could muster.

Share markets here and overseas have also recovered from the lows they reached in March 2009. For example, the Dow was up 60% from its March low as at the end of November 2009. The gains

we have seen so far can be split into two phases. The initial gain in share markets was the result of the market coming to the view that the world economy was more likely to suffer a recession rather than the expected global depression. From there, a combination of government spending, tax cuts and falling interest rates along with corporate cost-cutting led to an improvement in the prospects for company earnings and this spurred the second leg of the rally. In Australia, the unemployment rate has stabilised at a much lower rate of 5.8% than the 8.5% first anticipated and our resource exports to Asia, as well as commodity prices for those exports, have significantly increased. The RBA has raised interest rates for a record three consecutive months from October this year to 3.75% in December on the back of the improved economic outlook.

The recovery so far is welcome but looking ahead into 2010 we see considerable headwinds that may constrain further economic growth. The share market is in essence a forward looking indicator and its value is based on future expectations of corporate earnings. At current share market levels much of the good news seems to have already been allowed for.

In order for the markets to move higher company earnings will need to start growing again. For this to happen consumers will need to start spending again on goods and services. However, there are several factors that are likely to discourage consumers from spending. First, the increase in unemployment around the world or the fear of becoming unemployed has put a dampener on people's willingness to

spend. Second, in the US and parts of Europe we have seen a significant fall in residential property prices and the ability of homeowners to use that equity (which contributed to much of the spending in the recent past) has decreased significantly. Third, financial institutions have suffered significant losses from bad loans and as a result they are lending less and have also made their lending standards more stringent. This has led to businesses cutting back on purchases of new plant, equipment and inventory which all contribute to economic growth.

What this all means is that there needs to be further evidence of stabilisation in unemployment and positive economic growth feeding through to corporate revenues. With the unemployment rate and government debt in the US and Europe at elevated levels and consumers still struggling to reduce their own high levels of personal debt most indicators point to subdued consumer spending and lower corporate profits in 2010. Our view is that 2010 will be a tough year with most of the positive sentiment driven by the more favourable economic outlook for the Emerging Markets and in particular Asia.



### SuperRatings awards EISS two Gold rankings

EISS has received a Gold ranking for the Accumulation Scheme and the Account-Based Pension Plan from Australia's leading ratings agency for super funds, SuperRatings. EISS performed strongly in most of the major categories under assessment but was particularly commended for the range and cost of its automatic and voluntary insurance products.

# The dangers of investment switching



When you look at your superannuation account statement and find that your investments have gone backwards due to the global financial crisis, it's extremely tempting to consider switching out of the more volatile balanced or growth investment options and put your money in a much more stable cash option.

But is this actually a wise move for members nearing retirement?

The fact is that all investments, including super, go up and down with changes in financial market conditions. But while your money is sitting in your super fund's portfolio, any losses you incur are just "on paper". They only become real losses when you "crystallise" them by cashing in and switching to another option. Because when you do that, it's irreversible. You've settled for the low price and suffered the loss. It's real money you'll never get back.

On the other hand, if you leave your money where it is, you're likely to benefit when the

market recovers and your investments start to grow again. History shows us that's often exactly what happens. Markets generally recover after a fall, and with them so too do investment returns.

Everyone wants to buy at a low price and sell at a high price, but it is impossible to predict with any accuracy the highs and lows of financial markets. To illustrate this, we've tracked the switching activities of Accumulation Scheme members to see what actually happened during the very volatile conditions of the last two financial years.

6.4% of members made a switch to their investments from one option to another and of these almost a third (1.9%) switched to Cash. 25% of the switches to Cash occurred in March 2009 and 51% between November 2008 and April 2009. The reason for mentioning this is that March 2009 marks the point at which markets began their sustained recovery. A few scenarios will demonstrate the effect of this. A member who sat tight in the Diversified option from November 2007 to October 2009, for example, would have suffered a loss of 14.9%. On the other hand, a member who switched to Cash on, say, 2 March 2009 would have lost 28.3%, while a member who switched prior to the start of the global financial crisis in November 2007 would have made a positive return of 10.3%.

In other words, the best return was achieved by those who switched to Cash before the crisis hit but very few members did this which is not surprising as even the most astute investment analysts failed to foresee the financial crisis. The point is that most of

those who did make the switch to Cash did so at the very worst time to do so, just as the market began to recover, and this crystallised their losses and meant they missed out on the market upturn. That is why those who stuck with their original strategy did better than those who switched.

This demonstrates that picking the timing of those peaks and troughs with any accuracy simply can't be done. In any event, everyone's individual circumstances are different and you would be wise to seek financial advice before you make substantial alterations to your investment allocations.

Having said that, if you have actually reached retirement and need to draw down on your super, there is no choice but to crystallise a proportion of your losses during a market downturn. The trick is to make that proportion as small as possible.

As we've said, markets generally recover after a fall, and with them investment returns also improve, so one way of minimising losses is to draw your minimum living expenses from your cash investments and try to leave as much money as possible in more aggressive growth oriented investments. That way, you'll give these investments the best possible chance of capitalising on any market recovery.

Of course, before you make any significant financial decisions you should speak to a financial planner. If you would like to discuss this, or if you have any other questions about preparing for retirement, please call **1300 369 901** to speak to one of our qualified advisers.

## Balanced, diversified... What's the difference?

When it comes to your super there is a range of investment options available to you. If you're a member of the Energy Industries Superannuation Scheme (EISS) you have the choice of five distinct investment options: High Growth, Diversified, Balanced, Capital Guarded and Cash.

Each strategy has been designed to suit members at different stages of their careers. While some members may elect High Growth or the more conservative Capital Guarded or Cash strategies, most members choose the middle ground; the Balanced or the Diversified investment option.

### So what is the difference between a balanced and a diversified investment strategy?

EISS offers a Diversified investment option which in relation to the Balanced option

invests a higher proportion of funds in growth assets such as shares and commercial property, and a lesser proportion in income producing assets such as interest-bearing securities.

While the objective is to achieve real investment growth it's important to keep in mind that there is a possibility of short-term volatility. The overall risk of this option is considered medium to high with a one-in-four chance of a negative return in any one year.

The aim of the Balanced investment option is to earn more stable returns by investing a higher proportion of funds in income producing assets rather than the riskier growth assets.

These investments tend to experience less short-term volatility so the overall risk is considered to be medium with a one-in-five

chance of a negative return in any one year.

Generally speaking, a good overall strategy is to maximise growth in the earlier years of your career and conserve your super investment as you approach retirement, but when considering different investment options it's important to take into account your current age, your retirement plans and your appetite for risk.

You should always seek professional financial advice before making any major changes to your super investment, and the good news is that if you're a member of EISS you can get financial planning advice at no extra cost.

For more details about all the EISS investment options and financial planning just visit our website [www.eisuper.com.au](http://www.eisuper.com.au) or call **1300 369 901**.

# Frequently Asked Questions



## How do bonds work?

Over the last 10 years, bonds have generally been thought of as an unimaginative financial instrument for an unsophisticated investor. But in the wake of the recent global financial crisis, bonds have become increasingly important in the world of finance and it's worth understanding why. Here's how they work.

When you buy a bond from the government or a company, you are essentially lending them your money. They, in turn, promise to repay you the entire sum at a specific date in the future, but they also promise to make

interest payments at regular intervals along the way.

For example, a five-year, \$10,000 Commonwealth Government Bond might pay 5% per annum at six monthly intervals and repay the original \$10,000 at the end of the five years. This means the investor would receive \$250 every six months for the life of the bond, and the original \$10,000 back at the end.

Bonds are generally regarded as defensive assets because they experience lower volatility (and generally lower returns) than more aggressive asset classes such as shares. Bonds are rated by credit agencies and given ratings like AAA (investment grade) or B (highly speculative). Poorly rated bonds usually offer higher returns.

## What if I want to get out of a bond mid-term?

You are not obliged to hold your bonds for the agreed period, or to what is called maturity. You can agree to sell them on the secondary market to another investor. However, depending on the market conditions at the time, you may lose money

on the deal. This is because while the return on your bonds is guaranteed if held to maturity, it can be affected by inflation and interest rate fluctuations if they are being traded early.

## How does that work?

Let's say our Commonwealth Government bondholder decided to sell two years into the five-year term. Let's also assume that since the original bond was purchased, interest rates have risen by 0.5%. Any prospective purchaser of the bond would naturally take into consideration the interest rate being offered on bonds at that time and would be unlikely to purchase a bond returning 5% when they could get 5.5% elsewhere.

In order to make a successful sale, the seller of the bond would need to lower the face value of the bond so that the return on investment to the purchaser would match the 5.5% available on the open market. In this example, the asking price for the bond would need to reduce to \$9,863, a loss of \$137 on the original face value of the bond. Naturally, if interest rates had fallen since the original purchase, the opposite effect may apply.

# Investment performance

As at 31 December 2009  
Six month returns

Strategy	%*
High Growth	15.7
Diversified	13.0
Balanced	11.4
Capital Guarded	8.2
Cash	2.5

5 year returns

Strategy	%p.a.*
High Growth	3.0
Diversified	3.4
Balanced	3.6
Capital guarded	3.5
Cash	5.1

\* All returns are shown to one decimal place.

## We can help you with more than just your super

- Would you like to build an investment portfolio?  
**We can help you.**
- Need insurance?  
**We can help you.**

Call 1300 369 901 for more information.

## Seminars

Would you like to have a better understanding of how to manage your money, increase your savings, improve your investment portfolio or ensure you have enough on which to retire?

As a valued member you can attend a FREE seminar. To view our full calendar of up-coming seminars, visit [www.eisuper.com.au/seminar/seminarcalendar.asp](http://www.eisuper.com.au/seminar/seminarcalendar.asp)

# Fair Go

Fletcher Jones showcases a range of business and casual pieces for both men and ladies.

**Fletcher Jones is pleased to offer a 15% discount on all full retail price items at all their stores.**

Garments co-ordinate back together to create outfits that are classic, with a contemporary twist to ensure that you are up to date with the current trends.

Fletcher Jones can create a look for many occasions; it really is a one-stop shop for your all-year round wardrobe.

**To access this benefit please email [fairgo@memberbenefits.com.au](mailto:fairgo@memberbenefits.com.au) for a letter of introduction, which you will need to hand to the Fletcher Jones store staff.**

This letter contains a special Fletcher Jones customer reference code, which will ensure you receive your discount. Alternatively, call Member Services on **1300 369 901** for further assistance.

For further information and store locations visit: [www.fletcherjones.com.au](http://www.fletcherjones.com.au)

# How have investment markets performed?

The second half of 2009 could have left many investors wondering what all the fuss was about over the previous two years with record breaking short-term returns and a general improvement in investor confidence.

However, these unprecedented returns were a reaction to the severity of the market decline between late 2007 and early 2009 and the rally only served to return stock markets to more 'normal' levels. Some commentators argue that the rally was unsubstantiated and based on false optimism rather than solid economic data.

For instance, unemployment remained high in developed nations giving a strong indication that full recovery is still a long way off. US unemployment peaked at 10.1% in October whilst Australia peaked at 5.8%. This is a key statistic as economic growth is constrained while so many individuals are out of work and others are fearful of losing their jobs.

Interest rates remained at emergency levels throughout developed nations in order to encourage investment and therefore economic activity. Only Australia bucked the trend during the six months with three consecutive rate rises in October, November and December. Never before has there been three consecutive interest rate rises in Australia and this action was received favourably by investors who took it as a sign that the economy had recovered to a level that no longer required emergency action.

The US, however, was unable to follow suit largely due to the significantly higher unemployment rate and the high number of home owners whose mortgage is bigger than the value of their home. Interest rates in the US have been at 0.25% for the past

twelve months in a bid to stimulate economic activity. This does appear to be working, but it is expected that rates will stay at this level for an extended period until the recovery is secure.

The market commentary below is provided to give an indication of the various factors affecting the investment performance of individual asset classes. It is based only on the gross performance of the relevant market index and no allowance is made for taxes or fees as they apply in your superannuation investment. It is provided merely as an indication of relative performance between asset classes and should not be used as a measure for judging the performance of your investment strategy.

## Australian shares

The Australian stock market rose by 25.6%\* in the second half of 2009 as the market recorded five positive months out of six.

Record low interest rates and continuing government stimulus encouraged investors to return to the stock market.

The positive earnings announcements from companies were an encouragement to investors throughout this period. The earnings season was watched very closely for clues on how major financial institutions have weathered the post-credit crisis environment. On the whole, investors were not disappointed with most company profit announcements exceeding expectations, supporting a feeling of renewed optimism in the market.

\* as measured by the S&P/ASX 200 Accumulation Index.

## International shares

International stock markets rose by 20.4%\* over the six months on a hedged basis. Like the domestic stock market, investors have been enticed back into the equity markets following the sharp declines of last year as the credit crisis left many companies looking too cheap to pass up. We are now seeing stocks being priced in a range that is considered to be more normal, but this will require company fundamental data to justify the stock prices. Earnings announcements were generally positive, which helped stocks to rally, but this will need to be sustained into 2010 in order for global stock markets to continue upwards.

\* as measured by the MSCI World ex-Australia Accumulation Index (Hedged).

## Fixed interest and cash

Due to the rally in equity markets and the move towards more risky assets, fixed interest investments were less favoured by investors, reflected in their relatively modest returns.

Australian bonds returned 2.8%\* for the six months, which was a far cry from the double digit returns received for the previous financial year. Meanwhile, global bonds returned 5.1%\*\* for the same period.

Australian cash investments produced record low returns during this six month period. Cash returned 1.7%^ for the period as the cash rate had been reduced to emergency levels in order to stimulate the economy.

\*as measured by the UBS Australia Composite Bond Index.

\*\*as measured by the Barclays Capital based Aggregate Index - \$A hedged.

^as measured by the UBS Australian Bank Bill.

## Regional office details

**Lismore**  
81- 83 Molesworth St

**Newcastle**  
161 King St

**Orange**  
187 Summer St

**Parramatta**  
10-14 Smith St

**Sydney**  
28 Margaret St

**Wagga Wagga**  
Shop 2/209 Baylis St

**Wollongong**  
Shop 2/60 Burelli St

**Albury\***  
621 Dean St  
Office hours 8.30am - 5.00pm  
Monday - Friday

\*Bookings are essential. Phone 1300 369 901 to make an appointment.

If you have any questions, feel free to contact Member Services on 1300 369 901 or visit [www.eisuper.com.au](http://www.eisuper.com.au)



**Head Office**  
Ground Floor  
28 Margaret Street Sydney

**Postal address:**  
PO Box N835  
Grosvenor Place NSW 1220

**T:** 1300 369 901  
**F:** 02 9279 4131  
[www.eisuper.com.au](http://www.eisuper.com.au)