

YOUR FUTURE



ENERGY INDUSTRIES®
SUPERANNUATION SCHEME

Energy Industries Superannuation Scheme
Retirement and Defined Benefit Schemes - ABN 64 322 090 181

6 months ending 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 a Gold ranking

EISS has received a Gold ranking for 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.

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, particularly for members who are some way off 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 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 Retirement Scheme members to see what actually happened during the very volatile conditions of the last two financial years. Defined Benefit Scheme members don't have investment choice but the following analysis would be of interest to any member who also has an Accumulation Scheme account.

5.6% of members made a switch to their investments from one option to another and of these more than half switched to Cash. Of those, 25% switched to the Cash option 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 Trustee Selection option between November 2007 and October 2009,

for example, would have suffered a loss of 16.7%. On the other hand, a member who switched to Cash on, say, 2 March 2009 would have lost 33%, while a member who switched prior to the start of the global financial crisis in November 2007 would have made a positive return of 9.8%.

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.

Remember, superannuation is a long-term investment and markets rise and fall over time. Picking the timing of those peaks and troughs 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.

If you would like to discuss switching your investment option with one of our qualified financial planners, please call **1300 883 788**.

Take advantage of the 5 Star Chifley Home Loan

With interest rates on the rise, it's vital to ensure you have the most competitive home loan possible. Every cent saved on your mortgage is money that can be better invested or used elsewhere.

So, why not take advantage of the 5 Star Chifley Home Loan? (Chifley is part-owned by the Energy Industries Superannuation Scheme and was purchased to extend the range of benefits EISS could offer its members). Despite all the recent uncertainties in the financial markets, a Chifley Home Loan is still rated 5 Star by CANNEX, the independent financial services monitoring agency. This means our mortgage loan offers "superior value", giving you the reassurance that you are making the best possible choice!



Products awarded 5 stars by CANNEX are the best 5% of similar products available in Australia. So when you consider that

there are literally hundreds of similar products around, the award gives you the reassurance of knowing that with your Chifley Home Loan you are considering a competitive solution.

There are no mortgage application fees and no monthly account keeping fees. You can make extra and lump sum repayments without any restrictions which allows you to use any extra funds to reduce interest and pay out your loan faster*.

For more information on these or any of our competitive loans, either call us on **1800 800 002** or visit our website **www.chifley.com**.

*Limitations apply to Fixed Rate products. Terms and conditions apply. The credit provider is Select Credit Union Ltd. Fees, charges and all loan details will be disclosed in the loan contract. Some charges such as valuation fees and costs charged by the lender's solicitors are payable. These charges are non-refundable should they be incurred and the loan is not proceeded with. An early repayment fee may be payable. Chifley Financial Services Limited (ABN 75 053 704 706, AFSL 231148) provides services through an agreement with Select Credit Union Ltd (ABN 20 058 538 140, AFSL 238257). Chifley Financial Services does not guarantee the obligations of Select Credit Union Ltd.

Frequently Asked Questions



How do unit prices work?

As a member of the Energy Industries Superannuation Scheme*, every dollar you invest in your personal account or your other Contributions Account buys 'units' in the investment option(s) that you have chosen. Each contribution, be it salary sacrifice or personal contribution, rollover or Government co-contribution that comes

into the Scheme purchases units in the investment option(s) you have selected.

Let's say you contribute \$10 to your super account and the unit price is \$1 per unit, you will get 10 units. You will retain these units until you switch investment options or cash in your super. When withdrawals are made, units are redeemed to fund these payments.

When you receive your statement you will be able to see how many units you have in the Scheme. If you compare previous statements, you will see that the number of units you own has increased because your contributions have purchased more units throughout the year, assuming that you have not made any withdrawals.

Just like the share market, which fluctuates on a daily basis, unit prices in the Scheme change weekly according to changes in the market value of the investment option you have chosen. So your account balance may increase or decrease in line with the unit price.

Fluctuations in unit prices are completely normal and should be expected. It is only when you withdraw money from the Scheme that your benefit, which is based on the unit price at that time, is realised.

How many units do I get?

The number of units you get depends on the unit price at the time your contributions are received.

For example, if you invest \$100 each month, and in the first month the price of each unit is \$1 then you will get 100 units. If in the next month the unit price increases to \$2 you will only get 50 units. If, over time, the price decreases to 90 cents you would get 111 units.

*Unit prices apply only to invested benefits and have no bearing on members with solely defined benefit entitlements, such as Defined Benefit Scheme members. However, it is relevant to such members if they have made any voluntary contributions, rollovers or are in receipt of additional employer contributions such as award contributions.

Fair Go - Fletcher Jones Discount

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 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

Investment performance

6 month to 31 December 2009
Retirement Scheme

| Strategy | %* |
|-------------------|------|
| High Growth | 16.6 |
| Trustee Selection | 14.0 |
| Diversified | 13.3 |
| Balanced | 11.6 |
| Capital Guarded | 8.2 |
| Cash | 2.4 |

Defined Benefit Scheme

| Strategy | %* |
|-------------------|------|
| Trustee Selection | 14.0 |

* All returns are shown to one decimal place.

We can help you with more than just your super

- Looking for a low cost flexible home loan? **We can help you.**
- Would you like to build an investment portfolio? **We can help you.**
- Interested in gearing? **We can help you.**
- Need insurance? **We can help you.**

Call **1300 883 788** for more information.

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.

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If you have any questions, feel free to contact Member Services on 1300 369 901 or visit www.eisuper.com.au



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