

YOUR FUTURE



ENERGY INDUSTRIES®
SUPERANNUATION SCHEME

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

Six months to 31 December 2010

Message from Anthony Butcher, Fund Secretary



In 2009 we began a complete review of our investment portfolio to ensure it remains as flexible, effective and

efficient as possible. In September 2010 you would have received information about the latest investment strategy changes we had made as part of this ongoing review; changes made so that we can be the best super fund for your industry.

Our chief aim is to provide you with strong long-term returns and while we are committed to working hard to achieve this, strong returns are also dependent on the performance of investment markets.

It is reassuring that investment markets have been performing well in recent times although there are still concerns about the level of European debt and the strength of the US economy.

We are however optimistic about the future but believe it may be some time before we see sustained global economic growth.

The other significant change that took place in 2010 for EISS was the acquisition of the remaining 50% shareholding in FuturePlus Financial Services, our major service provider.

The main reason for taking full ownership was to give us the opportunity to tailor our financial planning and member services so that they are better able to meet the needs of our members in an ever-changing superannuation environment.

The markets and you

The Australian dollar has risen strongly against the US dollar and the Euro in recent months and this has had an impact on the super benefits of members. This article looks at why we invest overseas, the effect currency movements can have on investment returns and the measures we take to minimise the effect of currency fluctuations.

We invest in overseas markets in order to gain access to industries that we do not have access to in Australia as they form only a small part of the domestic market. A few examples of such industries are technology stocks, entertainment and manufacturing companies. The Australian market is heavily dominated by financial and banking stocks, mining and resource stocks and about 10% of the share market is made up of property related companies which limits the range of

choice for investors wanting to invest in listed companies.

The other reason for investing in overseas companies is to increase the diversification of our investments. Diversification is a way of making returns from an investment more stable as it is rare for a number of different asset classes to move in the one direction at the same time. For example, in the first half of this financial year Australian and international shares have performed reasonably strongly while bonds have struggled.

While the diversification of investments is in general a good thing investing overseas exposes an investor to one significant risk and that is the effect of the fluctuation of the Australian dollar against a foreign currency (usually the US dollar or Euro). In simple terms, if you hold a US investment and the Australian dollar rises against the US

dollar the value of your investment will fall and vice versa. This also makes the investment more volatile than it would be if it was only held in Australian dollars.

To give you an example, Chart 1 on the following page shows the movements in the US share market (Dow Jones) over the last 12 months and Chart 2 shows those movements in Australian dollars. If you are an Australian investor it is Chart 2 that shows you how well your investment has performed. In this example, although the US market rose around 10% between September and the end of November 2010 it was because of the strengthening Australian dollar that the return for an Australian investor was flat.

Continued over the page...



...The markets and you continued

So how can an investor protect against currency fluctuations?

The answer is through the use of hedging. Hedging is a method used by investors to remove a particular risk (such as market downturns or currency movements) from their investment approach. EISS generally adopts a 50% currency hedge which has provided some protection for its foreign investments from the rise in the Australian dollar. The level of hedging can change from time to time depending on the Trustee's view about market conditions and the prospects for the Australian dollar. Hedging does not remove risk altogether but it provides greater certainty and stability.

These views are not provided to help you make personal investment decisions. If you have any questions about your personal financial situation in light of the information in this article or in general you should consult a financial planner. You can contact a FuturePlus financial planner by calling **1300 883 788**.

Chart 1

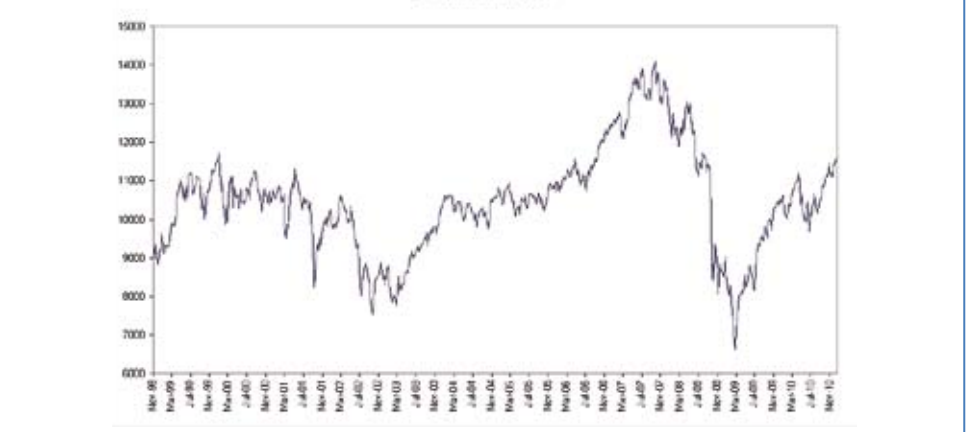
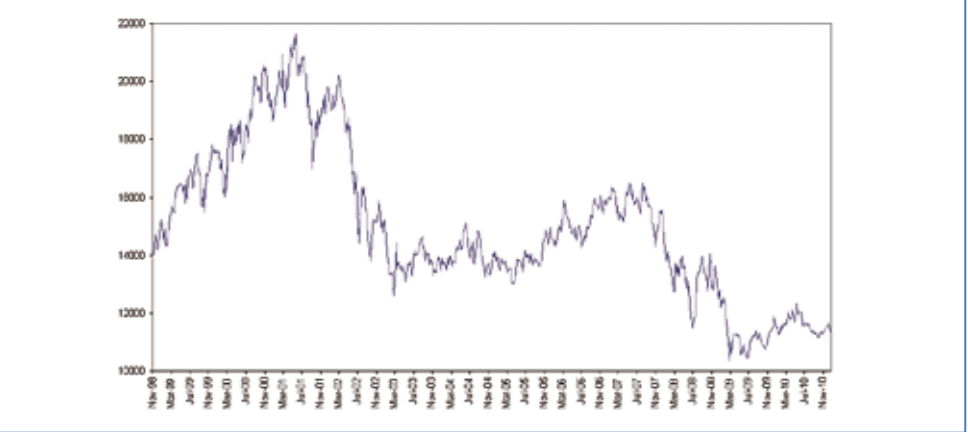


Chart 2



Test your super knowledge with a quick quiz (Answers on the back page).

1. What tax rate is applied to Concessional contributions (e.g. Superannuation Guarantee, salary sacrifice)?
 (a) 0%
 (b) 30%
 (c) 15%
 (d) 46.5%
2. What is the current rate of Superannuation Guarantee (compulsory employer) contributions?
 (a) 12%
 (b) 9%
 (c) 15%
 (d) 7%
3. Assume that your taxable income for the year is \$25,000 and you are eligible for the Government Co-contribution scheme. If you make a \$1,000 (post tax) contribution to super how much will the Government contribute?
 (a) \$1,000
 (b) \$500
 (c) \$1,500
 (d) Nothing

Investment performance - Six months to 31 December 2010

Retirement Scheme – Contributor Financed Benefit

Strategy	%*
High Growth	8.7
Growth*	7.6
Diversified	6.5
Balanced	5.0
Capital Guarded	3.7
Cash	2.3

Defined Benefit Scheme

Strategy	%*
Defined Benefit Selection*	7.6

*Formerly known as Trustee Selection.

All returns are shown to one decimal place.

Investment returns shown are historical and future performance cannot be guaranteed. Investment returns can go up and down and past performance is not a reliable indicator of future performance.

Changes to the asset allocation ranges, objectives and risks of the Growth* strategy

As part of its ongoing review of the EISS investment settings the Trustee has made changes to the asset allocation ranges (AAR), the objectives and the risk profile of the Growth* strategy.

The Trustee has made these changes to increase the diversification in the Growth strategy, increase its flexibility to allow a quicker response to changing market conditions and to maximise the chances of achieving the investment strategy's objectives with as little volatility as possible. These changes are described in more detail below.

Changes to the asset allocation ranges

These changes have led to an increase in the asset allocation ranges for the Growth strategy's potential exposure to growth assets and a reduction in its potential exposure to defensive assets. This would normally suggest that the strategy was becoming more aggressive and more volatile. However, due to the nature of the underlying assets, such as income-generating equities (global listed infrastructure and global listed property) and the credit investments in the Absolute Return segment, the risk profile of the strategy has become more stable.

Change to the objective

The objective has been changed to reflect the movement in the asset allocations. The new ranges and their risk profiles need to be judged over a longer time period and therefore the investment time frame has been extended from five to seven years.

Old description

Growth Strategy

For real investment growth above the inflation rate over the medium to long term.

Definition

The Growth strategy generally invests a high proportion of its funds in growth assets, such as Australian and international equities and property. The balance is invested in income-producing assets. This combination aims to earn real investment growth above the inflation rate over a five year period. Because the emphasis is on growth, you should keep in mind that there may be what financial professionals call 'short-term volatility' in this strategy. In other words, the value of the investment may fluctuate over the short term.

Objective

To target a real rate of return after tax of 5% p.a. over a five year period.

Risks

There is a significant chance that the investment value may decrease in the short term. The chance of a negative return in any year is 1 in 4.

Risk profile

High/Medium.

Current description

Growth Strategy

Provide diversified exposure to a range of asset classes.

Definition

The Growth strategy generally invests a high proportion of its funds in growth assets, such as Australian and international equities and property. The balance is invested in income-producing assets. This combination aims to earn real investment growth of **CPI plus 4% p.a. over 7 years**. Because the emphasis is on growth, you should keep in mind that there may be what financial professionals call 'short-term volatility' in this strategy. In other words, the value of the investment may fluctuate over the short term.

Objective

CPI + 4.0% over 7 years.

Risks

There is a significant chance that the investment value may decrease in the short term. The chance of a negative return in any year is 1 in 5.

Risk profile

High/Medium.

	Asset Classes	Old AAR	Asset Classes	Existing AAR	
Growth Assets	Australian Equities	15%-40%	Australian Equities	30% - 80% total for all	
	International Equities	15%-40%	International Equities		
	Unlisted Property	0%-20%	Listed property		
	Private Equity	0%-30%	Unlisted Property		0% - 20%
	Semi Liquid Assets	0%-20%	Private Equity		0% - 30%
	Absolute Return	0%-30%	Semi Liquid Assets Absolute Return		0% - 25% total for both
Total Growth Assets		70%-85%	Total Growth Assets	80% - 90%	
Defensive Assets	Fixed Interest	0%-25%	Fixed Interest	0% - 20%	
	Semi Liquid assets	0%-20%	Semi Liquid Assets	0% - 20% total for both	
	Absolute Return	0%-25%	Absolute Return		
	Cash	N/A	Cash	0% - 20%	
Total Defensive Assets		15%-30%	Total Defensive Assets	10% - 20%	

Change to the risk profile

Every EISS strategy carries the risk of a negative return and the risk profile attempts to show the likelihood of a negative return in any one year. The new asset allocations and the new types of investment have resulted in a reduction of risk or volatility in the Growth strategy and consequently the period during which negative returns might be expected has been extended from four to five years.

The table above provides a comparison of the previous and current Growth asset allocation ranges, risks and objectives.

When did you last review your investment strategy?

While these changes have made the Growth strategy more stable, members should be aware that it is a relatively aggressive strategy that is designed to achieve strong returns over the longer term. Because of its high exposure to growth assets it can suffer 'short-term volatility' which means that the value of the investment can move up and down sharply in a relatively short space of time.

Whatever strategy you are in, it's a good idea to review it on a regular basis to make sure it is consistent with your overall investment goals and your tolerance for risk (or volatility).

If you are not sure whether your current strategy is the right strategy for your needs and risk profile we can provide you with financial advice. Just call **1300 369 901** for more information.

* Formerly known as Trustee Selection.

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Enter arrival/departure dates.
Click "OK" and continue on with booking.

Important note: When checking in, you will need to present your Fair Go membership card.

EISS takes full ownership of FuturePlus Financial Services

EISS has taken full ownership of FuturePlus Financial Services, our service provider, which was formerly 50% owned by Local Government Super.



We are committed to ensuring that this change of ownership will cause minimal disruption to the services provided to members or employers.

However, there has been one significant change. The Scheme is conducting a review of the way we deliver our services to members and while that is in progress the branch offices, with the exception of Sydney Head Office, have closed and will not be available for member interviews or walk-ins.

Your access to Scheme representatives will be the same as before but we believe this new model will be more flexible, more cost-effective and more convenient for all our members.

FuturePlus will become a true third party provider of administration and back office services to other superannuation funds. In the longer term the purchase will ensure that EISS will have greater control over its service provider and will be able to tailor its range of services better to the needs of its members who work, or used to work, in the energy industries sector.

Frequently asked questions

What are alternative investments?

In Australia most super funds invest mainly in the traditional asset classes which are shares, cash, fixed interest



(which is made up of corporate and government bonds), property trusts and direct property. Most investment strategies offered by super funds have differing proportions of these asset types depending on how aggressive or conservative they are.

Alternative investments are basically any asset types that do not fall into these traditional categories and include hedge funds, infrastructure, distressed debt funds, and investment strategies linked to insurance such as life settlement and catastrophe bonds. This is just to name a few.

The definition can vary from country to country. For example, direct property in the US is regarded as alternative while in Australia it is regarded as a conventional type of investment.

The reasons for investing in alternative investments are:

- to increase diversification within a portfolio
- to make the returns of a portfolio more stable by selecting investments that do not all move in the same direction at the same time
- to gain access to less liquid (which means readily convertible to cash) markets that can offer strong returns for those with a long investment time frame.

At EISS the exposure to alternative investments has always been small but the level of exposure does depend on market conditions and the goals of the particular investment strategy.

Tips on how to minimise your carbon footprint



Energy consumption has an impact on your pocket and the environment. Here are a few tips on how to live more efficiently.

- Unplug your appliances. Leaving appliances on standby can account for between \$11-15 in every \$100 on your bill. This can be avoided if you turn appliances such as TVs, stereos and computers off at the power point.
- For appliances that can't be turned off, like a fridge, make sure there is space for the air to circulate around it. Also, check the thermostat to make sure it is not making the fridge much colder than it needs to be, and ensure that the door seals are clean and that the door itself closes securely.

- When buying appliances check the energy-rating and also whether you might qualify for government rebates for purchasing a high energy-efficient appliance. Not only are energy efficient appliances cheaper to run, they are also good for the environment. For example, an energy-efficient fridge can save up to 4.5 tonnes of greenhouse gases over its lifetime. Visit www.energyrating.gov.au for more information.

- Try to fill the dishwasher and washing machine before using.
- Switch to compact fluorescent lights.

Heating and cooling make up a substantial part of any power bill. These are tips for making your heating and cooling as efficient as possible.

- Insulate your roof to help moderate the fluctuation of temperature in your home. The money you save on your energy bill will repay the investment in a relatively short time.
- Close all external windows and doors when the air-conditioning is running and shade windows during summer to keep the heat out and during winter to keep the heat in.

- Use ceiling fans where possible as they are much cheaper to run than air-conditioning. If you have fans already turn them off when you leave the room as their cooling effect only works while you are in the room.
- If you are using an air-conditioner try not to set the thermostat too high or too low. When heating, each 1°C increase of the thermostat can save up to 10 per cent in power costs.
- Lowering the water heater thermostat, if possible to around 65°C, can also help reduce costs.
- Check your home's energy efficiency rating by going to the NABERS website at www.nabers.com.au which will also provide you with further suggestions about how to make your home as energy efficient as possible.

Finally, you should check that you are getting the best deal possible from your energy supplier. For more information about choosing the best energy supplier go to www.industry.nsw.gov.au/energy/customers/choosing-supplier

(Sources: Choice Online and the NSW Government Industry and Investment website Saving energy)

What's happened in investment markets?

The second half of 2010 produced impressive share (equity) market returns as investors were encouraged by continued intervention by governments around the world to stimulate their economies. This left fixed interest markets unattractive and pushed a lot of funds into equity markets.

The US government announced that interest rates would be left at close to zero for an extended period of time, that taxes would be cut for low-to-middle level earners and that a new round of quantitative easing would take place to provide further stimulus in the economy.

Quantitative easing involves the government buying back previously issued bonds in order to increase the levels of liquidity in the economy with the aim of encouraging businesses and consumers to spend the free cash that they have. Quantitative easing on this scale has never been tried before so it's too early to judge the measure's effectiveness but many commentators are expecting it to provide a short-term spark with the risk of high inflation a more distant danger.

Domestically, the Reserve Bank of Australia (RBA) raised interest rates once during the six months with a 0.25% increase occurring on Melbourne Cup day with rates reaching a fairly neutral level of 4.75% as the RBA became increasingly concerned about the risk of inflation.

The rapid rate at which rates have increased is likely to slow down dramatically as the RBA have announced that they are concerned about the risk of further sovereign default emanating from Europe with Ireland being the latest country to receive bail-out funds from the European Central Bank and the International Monetary Fund. Spain, Portugal, Belgium and Italy are all considered to be risky nations in terms

of their ability to meet debt obligations and the possible deflationary effect of default is clearly something that the RBA is concerned over and monitoring closely.

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 12.8%* in the second half of 2010 with four positive months out of six as the market was buoyed by a gradually improving economic backdrop and encouraging corporate profits.

Additionally, the continued demand for raw materials out of China gave the Australian miners a boost with record-high

commodity prices and proposed sales volumes increasing.

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

International shares

International stock markets rose by 19.0%* over the six months on a hedged basis. Like the domestic stock market, investors were encouraged by improving economic data and improved profit outlooks.

A further driver was the extremely low interest rates throughout much of the developed world, which enticed investors out of fixed interest markets and into riskier assets like equities in order to chase returns.

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

Fixed interest and cash

With only Australia offering any kind of return on fixed interest investors, the majority of investors steered clear of bonds in favour of riskier assets and this led to very subdued returns in global fixed interest markets.

Australian bonds returned 0.6%* for the six months – the lowest 6-month return since October 2009. Meanwhile, global bonds returned 2.2%***, marginally higher than domestic returns, as the Federal Reserve (the US central bank) announced that interest rates would be left at emergency level for an extended period, which had the effect of pushing the capital value of bonds higher.

Australian cash investments produced an improved return of 2.5%^ following the recent interest rate rises.

*as measured by the UBS Australian Government Bond Index.

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

^as measured by the UBS Australian Bank Bill.

Super quiz answers

1. (c)

2. (b)

3. (a)

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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