

# 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 next 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.

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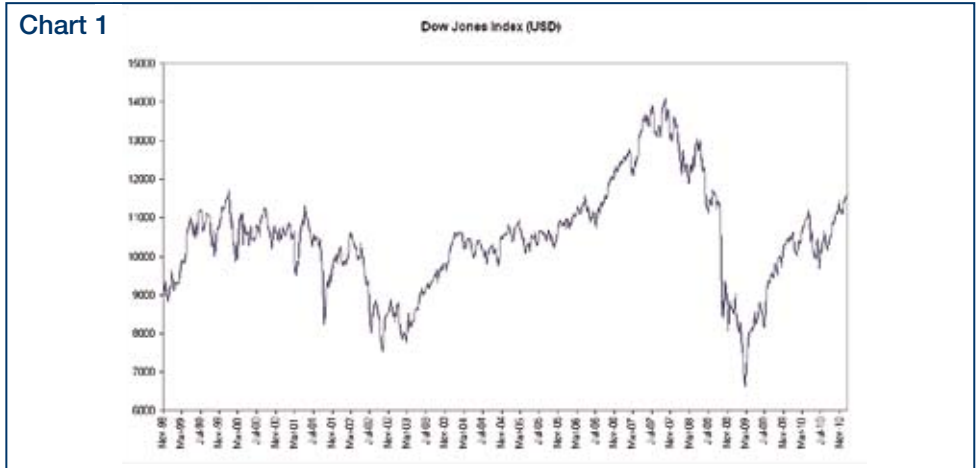


...The markets and you continued

**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**.



# Investment performance - Six months to 31 December 2010\*

**Retirement Scheme returns for the 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.

## 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.

# What does a financial plan look like?

At various points in your life you will be faced with making big financial decisions, for example termination of employment/retranchment, buying a house, inheriting money and retirement to name a few. Whenever you find yourself in this position you should get financial advice and that advice will often come in the form of a comprehensive financial plan. But if you've not received financial advice previously you may not know how a financial plan is constructed and what it contains and so for those members we provide an overview of what a plan looks like.

## Retirement plan

Financial plans vary according to the needs of the person seeking advice. A financial plan for a young person borrowing to purchase shares will have a different structure from one for an older person terminating employment. In this example we will assume Paul and Jane are seeking advice about retiring. They have already completed a risk profile and 'client fact sheet' and have met with their financial planner.

A retirement financial plan has six main components:

- Description of current situation
- Needs, objectives and intentions
- Investment risk profile
- Strategy and recommendations
- Disclosure of fees
- How to proceed

## Current situation

This is the starting point for any plan. It describes the applicant's personal and financial situation, existing insurance and estate planning arrangements and takes into account any employer termination payments that will be payable. A summary for Paul and Jane might look like this:

## Needs, objectives and intentions

This section summarises the short and long-term goals of Paul and Jane. Short-term goals can be things like renovating a section of the house, taking a holiday or upgrading the car. Long-term goals relate mainly to the amount of income that this couple will

Asset description	Owner	Market Value
Residential home	Joint	\$600,000
Household contents	Joint	\$120,000
Cars	Jane	\$40,000
TOTAL		\$760,000

## Investment Assets

Asset description	Owner	Market Value
Energy Industries Superannuation Scheme– Cash	Paul	\$760,000
Australian Shares	Paul	\$12,000
Bank account	Paul	\$20,000
Energy Industries Superannuation Scheme- Diversified	Jane	\$120,000
Bank account	Jane	\$80,000
TOTAL		\$992,000

need for the rest of their retirement and other investment settings. Paul and Jane would like at least \$55,000 net income per year and would like to leave their child something when they die.

## Risk profile

Your risk profile describes what type of investor you are.

Paul found the global financial crisis nerve-wracking and the responses he gave in the questionnaire indicate that he is a nervous investor. Jane's risk profile questionnaire suggested that she is a more aggressive investor. This difference in approach was acknowledged in the interview, discussed extensively and the 'Cash' risk profile was agreed to be the appropriate investment profile.

A Cash investor typically invests in short-term securities and is prepared to accept lower investment returns in order to protect capital despite higher returns being available. The investment strategy is always discussed in detail during the interview and any risks addressed.

## Strategy and recommendations

This section recommends the most appropriate investment strategy

to meet the goals and investment objectives of Paul and Jane. The following is a sample of the full list of recommendations as there is not space to include them all.

## Withdrawal/recontribution strategy for Paul

This involves withdrawing a lump sum (\$450,000) from Paul's existing superannuation benefit and recontributing the funds back into superannuation prior to commencing an income stream. This increases the tax-exempt component and provides estate planning advantages as this component paid to non-dependant beneficiaries are tax free.

## Roll over Accumulation Scheme benefits to the Account-based Pension Plan

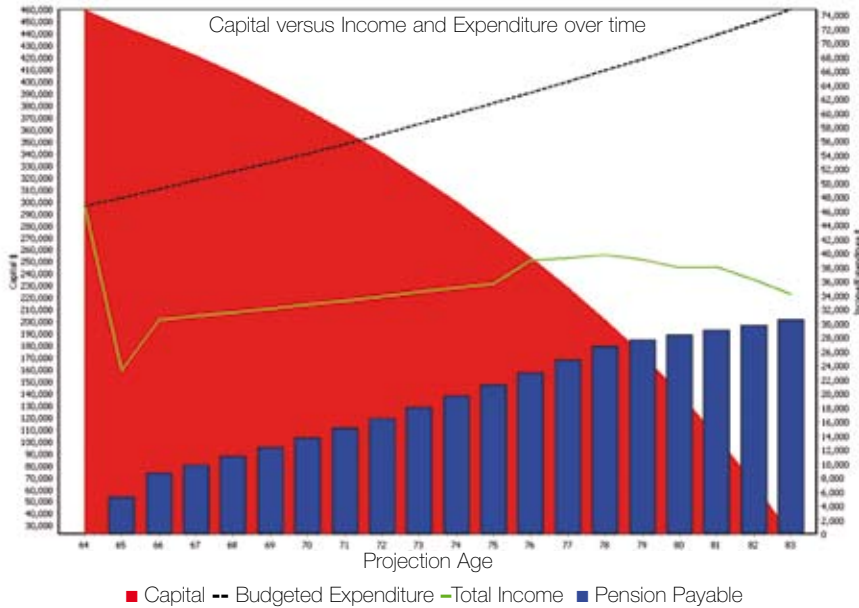
Account-based pensions have many advantages. They help members with eligibility for social security, they are flexible with regard to income and investment style and they offer capital growth in a tax-free environment. For these reasons it is recommended that Paul and Jane transfer their accumulation benefits to an account-based pension and nominate \$55,000, their income requirement, as the annual drawdown amount.

## Illustrations

Most plans will contain graphical illustrations of how the investments are expected to perform over time based on certain assumptions.

For example, in Paul and Jane's plan there would be a 5 year projection of income and tax, an asset allocation chart showing the break-up of their investment among the various asset classes and a capital and income projection which would show how long the pension might be expected to last or how much capital might remain at the end of the investment period. It also shows the gap between income requirements and the capital available to meet those requirements. You can see that the old age pension becomes more significant as the couple grows older and their capital declines.

The graph on the next page provides an example only as there is no room to go



into the assumptions made to achieve these figures.

### Fees and Compliance

This section outlines the fees and charges that will be payable for the recommended products and for the advice provided by the financial services provider. This is shown in a percentage and dollar format.

### How to proceed

This is the final part of the financial plan. It explains in detail how to go about

acting on the instructions contained in the plan. This includes all documentation requirements, an outline of the steps that will need to be taken and specifies any transactions such as bank transfers that will need to be completed for the plan to be set up.

Any plan needs to be reviewed carefully to make sure that the financial planner has understood your goals and needs correctly and has constructed the plan accordingly. If nothing needs to be changed then it's a matter of signing the authority to proceed and submitting all

the necessary paperwork.

Once the plan is established it still needs to be reviewed from time to time when your circumstances or goals change or when government legislation or other factors alter the assumptions on which the plan is based.

### Do you need a financial plan?

If you are thinking of retirement or have a major financial decision to make in the near future you should think about getting a financial plan. Financial decisions can seem very complicated and difficult, especially if you are unfamiliar with the financial sector and financial products. A financial plan provides a simple summary of your position, your options and what you should do to achieve your goals.

EISS through FuturePlus Financial Services has an experienced group of financial planners who can assist you with any financial planning needs you might have and this service is provided to you at no additional cost.

If you would like to consult one of our financial planners please call **1300 883 788** to make an appointment.

## Fair Go - Accor Hotels

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Enter City, Country or Hotel code.

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.**

# 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

### 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	<b>30% - 80% total for all</b>	
	International Equities	15%-40%	International Equities		
	Unlisted Property	0%-20%	Listed property		
	Private Equity	0%-30%	Unlisted Property		<b>0% - 20%</b>
	Semi Liquid Assets	0%-20%	Private Equity		<b>0% - 30%</b>
	Absolute Return	0%-30%	Semi Liquid Assets		<b>0% - 25% total for both</b>
<b>Total Growth Assets</b>		<b>70%-85%</b>	<b>Total Growth Assets</b>		
Defensive Assets	Fixed Interest	0%-25%	Fixed Interest	<b>0% - 20%</b>	
	Semi Liquid assets	0%-20%	Semi Liquid Assets	<b>0% - 20% total for both</b>	
	Absolute Return	0%-25%	Absolute Return		
	Cash	N/A	Cash		<b>0% - 20%</b>
	<b>Total Defensive Assets</b>		<b>15%-30%</b>	<b>Total Defensive Assets</b>	
			<b>10% - 20%</b>		

extended from five to seven years.

## 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.

\* Formerly known as Trustee Selection.

## 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.

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

- Would you like to build an investment portfolio? **We can help you.**
- Interested in gearing? **We can help you.**
- Need advice about maximising your Centrelink and other Government entitlements? **We can help you.**

Call **1300 369 901** for more information.

# 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.**



OFFER	LAST	VOL	STOCK	BI
0.15	6.13	41T	STHNCROSS	15.0
0.72	4.72	4HT	STIRLING	0.0
		0	STOCKLAND	8.0
0.45	0.45	8T	STOKES	0.0
0.03	0.028	0	STONEHENGE	0.0
0.99	2.99	0	STRAITSRES	3.0
0.00	2.00	1M	STRAT MINS	0.0
0.25	4.25	2HT	STRAT POOL	0.0
0.84	0.85	0	STRATATEL	0.0
	0.035	0	STRATHFLD	0.0
0.70	0.70	3HT	STRIKE	2.0
0.04	0.043	2HT	STRIKE OIL	0.0
0.09	0.083	2HT	STRUCT MON	0.0
			STRUCTURAL	1.0

## 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.

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)



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