



# INVESTMENT UPDATE

3 April 2009

This Investment Update has been prepared in consultation with the implemented investment consultant for NTGPASS. The update provides a summary of how your NTGPASS benefit may be affected by recent events and answers some questions you may have as a result.

It seems likely that Australia is heading towards the country's first recession since the early 1990s. If this occurs, Australia will not be alone with many of the world's major countries already in recession.

Leaders across the globe are taking dramatic steps to prevent the situation from worsening. These steps include massive stimulus packages, significant reductions in interest rates and the purchase of 'toxic' assets from some of the world's largest financial institutions so that these problem assets can be dealt with separately.

In global share markets, the volatility witnessed in the second half of 2008 has continued into the first quarter of 2009. Since the beginning of March up to today (3 April 2009) the US share market has risen by 14 per cent, largely on the back of a favourable reaction to President Obama's plan to encourage banks to resume lending. This steep gain in the US market during March also fed through to many other share markets across the world, including Australia.

## A snapshot view of the Global Financial Crisis

The global financial crisis (GFC) started to emerge in September 2008 with the failure of the investment bank Lehman Brothers and the bailout of a number of large United States-based financial firms. This crisis was not limited to the US. The problem was quickly transmitted to the global finance sector and from there led investors to re-assess their enthusiasm for any company with actual or perceived high levels of debt.

The impact has been serious and severe with a number of European bank failures, declines in most share indexes and large reductions in the market value of equities.

Periods of high volatility and weak market conditions are part of the nature of investment markets. Since the year 1900, investors have experienced 32 significant downturns and 25 significant upswings.

It has been almost 20 years since the last significant market correction in Australia. As a result, people became accustomed to markets trending higher in price, with any market downturns being relatively minor and short-lived. Sadly, this is not the case this time.

Some of the effects of the GFC have been:

- The Australian share market lost approximately 54 per cent of its value from its record high in November 2007 to its recent low in mid March 2009.
- The International Monetary Fund is now forecasting that global growth in 2009 will be the lowest since the Great Depression of 1929.

- The Australian dollar has ranged from a high of US\$0.98 in July 2008 to a recent low of US\$0.60 in October 2008 and commodity prices have experienced similar significant falls.
- Building companies have been affected through a collapse in building approvals over the year and profit warnings have been issued by many companies, further eroding investor confidence.

The most recent market downturns in the early 1990s, 2000 (the 'tech wreck') and 2001 (September 11 terrorist attacks) were relatively short lived and the markets bounced back very quickly. Earlier market downturns in 1929, 1973, 1980 and 1987 were more prolonged and pronounced, with share prices staying depressed for a longer period of time.

Initial economic indicators suggest that the Commonwealth's first \$100.4 billion economic stimulus package (in December 2008) supported retail sales and housing demand, especially for first home buyers.

There is similar faith in the Commonwealth's latest stimulus package, which is worth \$42 billion.

In an effort to stimulate the economy, the Reserve Bank of Australia has cut the official cash interest rate by 4 per cent since September 2008. The cash interest rate was last cut in February of this year to a 40 year low of 3.25 per cent and many market commentators believe there will be further cuts.

## What is a Toxic Asset?

Toxic assets are investments backed by sub-prime mortgages. These investments have declined substantially in value and in some cases are virtually worthless. This leaves the lending institutions, such as banks and insurance companies, which own these investments having to record substantial losses on these assets.

These bad loans in turn drag down the balance sheet value of the lending institutions and reduce their capacity to fund future loans. Institutions around the world now have an estimated \$2 trillion in bad assets on their books.

## Benefits of long term investing

Superannuation has performed well over the long term, despite the poor performance of the markets over the last 18 months.

It is not unusual for growth oriented investment portfolios with a weighting towards shares to produce an annual negative return every 4 to 7 years. However, in the long term, these portfolios have historically still provided higher returns than those portfolios with lower risk, that is a higher allocation towards cash and fixed interest.

Even though people nearing or in retirement may not look at superannuation as a long-term investment, most people will spend more than 15 years in retirement. Average life expectancies continue to increase with current actuarial expectations for males to live to age 82 and for females to live until 87. This means reaching retirement age doesn't necessarily mean you should alter your long-term investing strategy.

## Should I switch my investment option?

You should think carefully before you make changes to your current investment strategy. Past experience has shown that often members move to a lower risk investment (primarily cash and fixed interest) as markets fall and then fail to move back into a higher risk investment (primarily shares and property) before the markets fully recover.

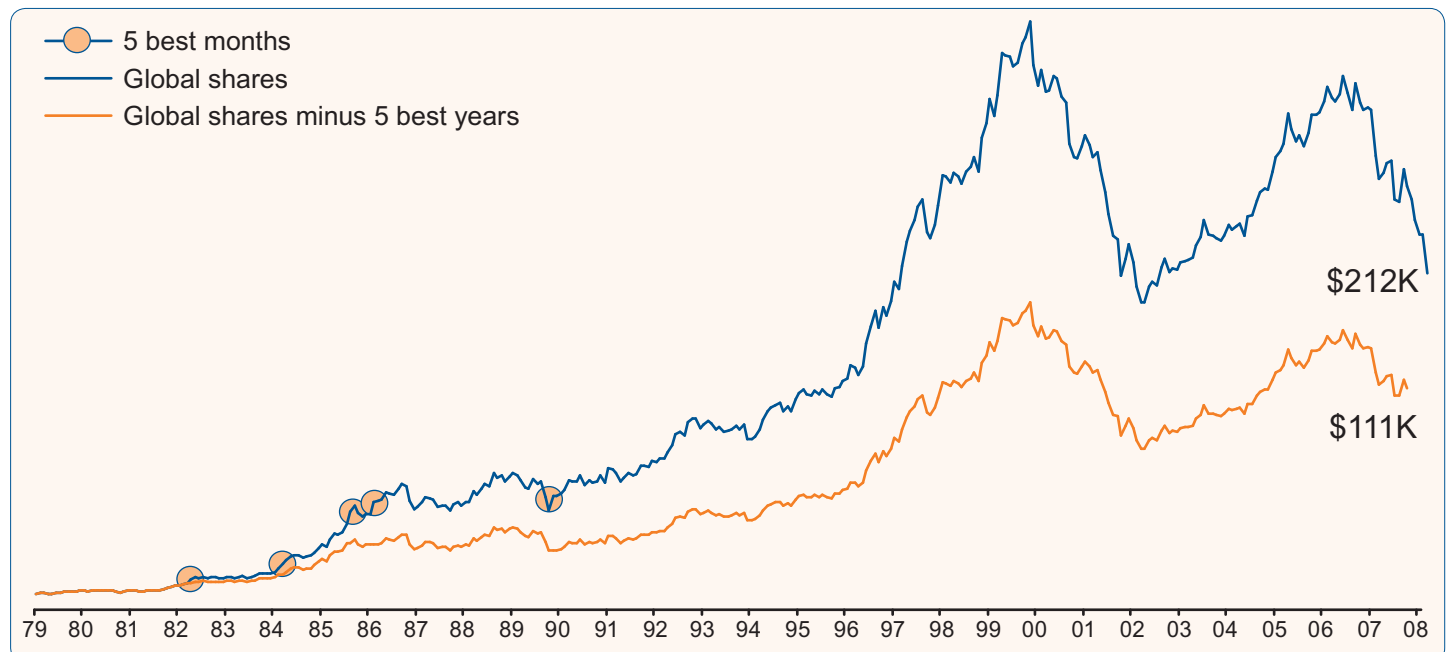
Attempting to pick the bottom of the investment cycle is risky because a recovery can happen quickly and you may miss out on the benefits of the recovery in asset values.

Over time, the action of selling assets when values are low and buying back in when values are high could have a significant impact on your benefit.

Historical returns show that it is time in the market – not timing the market – that is important to wealth creation.

The chart below illustrates the dangers of trying to 'time' the markets. 'Timing' the markets is where you change investment options based on what you think is going to happen over a short time period, such as the next week, month or year.

The blue line in the chart shows how an investor would have fared if they had commenced with \$10 000 in 1980 and invested this solely in global shares. Over the next 29 years (at the end of February 2009) this original \$10 000 would have grown to an impressive \$212 000. This is even after the recent market correction is taken into account.



The orange line shows the impact of a person who tried to 'time' the market just five times over this period. Unfortunately, they got their calls wrong and happened to be out of the market for the best five months over this period. The original \$10 000 would have accumulated to \$111 000 for this investor. The impact of missing just five months out of almost 30 years is substantial – a difference of \$101 000.

### Has my super account balance decreased?

This year some superannuation account balances have decreased with the fall in the financial markets, after a number of years of strong growth. However, you only realise any losses if you decide to switch into another investment option or if you retire and begin accessing your superannuation. While you remain in superannuation, your account will benefit from any upswing in the markets.

Although your accumulation account may have reduced, for the average NTGPASS member, the amount by which your accumulation account has decreased will be less than the amount gained in recent years while the financial markets were strong. If you are still an active contributing member, keep in mind that the defined benefit portion of your superannuation continues to grow.

### Should I reduce my compulsory contributions?

It is important for active contributing NTGPASS members (those still employed by the Northern Territory Government and contributing between 2 and 6 per cent of salary per fortnight) to remember the advantage of maintaining the maximum contribution rate of 6 per cent.

Your compulsory contributions entitle you to the defined portion of your benefit (the Northern Territory Government portion). Each 1 per cent that you contribute each year, up to the maximum contribution rate of 6 per cent, earns you an additional benefit point. Your final benefit is then calculated according to a formula based on the number of benefit points, length of membership and benefit salary. This can add up considerably over your period of membership with NTGPASS.

The advantage of your defined benefit is that it is calculated according to a formula based on your benefit salary and benefit points earned over your period of eligible service. For this value, see your 30 June 2008 member information statement.

### What if I'm close to retirement?

Members who are approaching retirement may understandably be concerned about how recent returns will impact on their retirement income and financial security.

If you are close to retirement or recently retired you will generally have time to recover from the market downturn. However, older retirees have less time to recover. There are some options for these members:

**Budgeting** – It is important to take control of your finances. Budgeting can be a useful tool to assist in planning your retirement and deciding on how to draw down on your superannuation.

**Employment** - Delaying retirement may also be an option. If you are over the age of 65 and satisfy the 'work test', (that is, 40 hours of work in a continuous 30 day period) you can continue to contribute to super. This may allow you to delay retirement and you may accumulate further funds.

**Age Pension** – The age pension may be a way of supplementing your retirement income. Eligibility for the aged pension is dependant on your income, assets and age – currently age 65 for males and 63.5 for females.

In recent months, some retirees have applied to Centrelink ([www.centrelink.gov.au](http://www.centrelink.gov.au)) for the first time to receive the age pension and others have applied to have their age pension increased.

**Financial Advice** - Professional financial advice from a licensed financial advisor ([www.asic.gov.au/fido](http://www.asic.gov.au/fido)) may help you put in place pre- and post-retirement plans based on your financial circumstances.

### What else can I do?

You can take advantage of diversifying your superannuation.

Active and retained members now have the opportunity to invest their current accumulation account in one option and future contributions (fortnightly 2 to 6 per cent contributions, salary sacrifice, voluntary contributions and rollovers) into another option.

Pension members can invest their account balance in any or all six investment options.

### What are the Trustees doing?

The Trustees are closely monitoring current economic events and have sought regular advice from MLC and other fund managers and advisors on the management of members' funds.

The Trustees are aware of their responsibility to keep members aware of investment returns and recommend that members regularly look up the Superannuation website and check the weekly and YTD returns.

The Trustees have endorsed and been involved in Member Information Seminars. A total of 23 seminars were presented in November and December 2008, with emphasis placed on the financial crisis and the effect to NTGPASS members.

NTGPASS participates in 'Super Saturdays', an industry run initiative for fund representatives to meet members and answer their superannuation questions. Staff from the Superannuation Office have manned 'Super Saturdays' stalls in Casuarina Square, with future events planned for the Smith Street Mall, Darwin.

Regular reviews of MLC's performance are undertaken by the Trustees and have shown that returns on the various investment options are in line with similar funds. As part of normal processes the Trustees also commissioned an external review of MLC's performance that was delivered in January 2009. The review was broadly supportive of MLC's performance and did not raise any major issues or concerns.

The Trustees acknowledge that low or negative returns are disappointing and directly impact on members, but that under the current exceptional economic conditions such returns are difficult to avoid.

### What is MLC – Your Implemented Consultant – doing?

Through focus on diversification, MLC ensures that your superannuation is invested across a wide range of asset classes, fund managers and individual investments.

You will no doubt have heard about a large number of companies suffering massive losses or going bankrupt, including ABC Learning, Babcock and Brown and Centro in Australia, while Lehman Brothers, General Motors and AIG are examples overseas. It is in times like this that diversification really makes a difference, and you can draw comfort that these individual failures will not have a pronounced impact on your returns.

MLC use a prudent approach to liquidity. A number of fund managers have had to 'freeze' particular funds as they were unable to sell part (or all) of their assets. MLC has always had a very prudent approach when it comes to liquidity. As a result, MLC is one of very few large fund managers that have not had to freeze any of their funds.

MLC is constantly seeking out the best fund managers. As NTGPASS' Implemented Consultant, MLC does not directly invest your superannuation. Instead, MLC selects the best fund managers across the globe and your super is currently managed by 30 of the world's best fund managers. MLC continues to monitor these managers and constantly reviews potential managers to ensure that the best managers are used.

The most recent change to the fund managers used by MLC to manage the NTGPASS portfolio was in February, with the appointment of four new global share managers.

### You are not alone

Ten of Australia's peak industry bodies representing investment markets, superannuation funds and financial planners have joined to urge Australians to make good decisions about their superannuation during the global financial crisis.

The bodies, collectively known as the Superannuation Stakeholders Group, have produced a joint communiqué. For more information, please visit the AIST website: [www.aist.asn.au](http://www.aist.asn.au)

Decisions about superannuation can have a significant impact on retirement income and before people make any decision, it is important to take time to understand how financial markets impact on returns over time. For every market downturn there is a recovery. The question is how soon will the recovery happen, and what should superannuation fund members do (or not do) in the meantime?

### What does the future hold for superannuation?

Superannuation has been an important part of Australian's retirement plans for over 20 years.

Past performance is not an indicator or guide to future performance. After many years of strong returns, members are currently experiencing a downturn.

Experience shows that financial markets generally turn around and perform well after periods of poor performance and generally do so ahead of an economic recovery. It is possible that there will be further periods of volatility in markets in the future. However, in the short term, the returns are likely to be low or negative this year.

#### Disclaimer

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