

# SuperNews

## Investments

The past 12 months has seen unprecedented volatility in international and domestic equity markets. This has led to significant sharemarket declines amid concerns of a worldwide economic recession and continued dislocations in the financial services sector. These declines in equity markets, and also in Australian Listed Property Securities and International REITs, have resulted in negative returns for those options with exposure to shares for the quarter ended 30 September 2008.

Although this is disappointing for our members it is important to remember that superannuation is a long term tax effective investment, which became even more attractive since tax on lump sums and pensions was removed for people aged 60 years and over from 1 July 2007. There is always the possibility of short-term volatility when investing in shares. However, as we have seen in the past markets go up and down in cycles and weathering these fluctuations is part of long term investing. These market events serve to reinforce investors' need to remain calm, measured and focused on their longer term investment strategy and principles. Subject to your own personal investment long term strategy, stay invested and remain well diversified and beware of the possible pit falls of trying to time the market. History shows that over the long term a diversified balanced or growth investment option will outperform cash.

Superannuation funds continue to deliver strong returns over the long term, driven mainly by the capital growth from equity markets. The market volatility and market declines witnessed in 2008 have surpassed that expected by almost all market participants in both their severity and duration. Nonetheless, although risks to economic growth remain, many strategists and analysts believe that equity market valuations are attractive and that 2009/10 should see stronger global stock markets.

The most important thing for a member is to determine their long term investment strategy and to choose an option that suits their own risk and return preferences and to maintain their long term retirement savings plan.

Views from the fund's asset consultant (Russell Investment Management Ltd)

Russell has for some time been wary of the extraordinary rise in commodities prices in recent years – a situation Russell describe as a "bubble" which has lead, in its opinion, to extreme mispricing across, and within, asset classes.

The commodity "bubble" peaked on July 15 2008, and since then investors have seen the beginning of a very powerful unwind. Since July 15, the oil price has dropped by around 50%; gold and base metal are in "bear markets". The Australian dollar has never depreciated by such an extent in such a short timeframe – down US 30 cents in 4 months. These are the market conditions for which Russell has advised it clients to position their investments in this profoundly challenging second half of 2008 e.g. Russell has been largely underweight Fortescue Metals and this call has now paid off.

## Investment commentary

The unfolding of the credit crisis story translated into a weak and highly volatile quarter for Australian equities, with the market declining by 10.70%. This was its first run of four successive negative quarters since the 1990-91 recession. In an attempt to calm market volatility from events in the US, ASIC unveiled a short sell ban on the entire Australian share market. However, this did little to repair investor confidence, as the US congress rejected a US\$700 billion bailout bill, sending the market into a freefall, down 4% on the last day of the quarter. Resource and Energy stocks which had been the pillars of the Australian market were sold off sharply on investor concerns of slowing global growth and hence reduced demand.

Global equity markets continued their downward trend in the third quarter with many major markets posting negative returns. Stock markets worldwide tumbled during September after financial institution bailouts accelerated and the US House of Representatives rejected a US\$700 billion plan to rescue the American financial system, though markets pared their losses on the last day of the month on speculation the bank-rescue package would be revived, which happened early in October 2008. Growing concerns about the US being near, or in, recession and weak to negative European growth added to the volatility in global equity markets. Emerging markets were also effected by these issues returning -11.0% for the quarter.

The Australian bond market posted a strong return of 5.3% over the quarter, finishing ahead of the international bond market at 2.0%. Increased risk aversion in the financial markets saw a flight-to-quality which resulted in buying activity in government bonds, with Australian government yields falling throughout the quarter. The turbulence in global credit markets flowed through to domestic non-government sectors. The nationalisation of US mortgage lenders Fannie Mae and Freddie Mac exacerbated nervousness and then the bankruptcy of Lehman Bros, defaulted bonds for Washington Mutual and the bailout of AIG followed in quick succession. In attempts to boost market liquidity, coordinated action was undertaken by the several central banks. In Australia a rate cut of 0.25% was made by the Reserve Bank in early September (with another 1.00% cut in October) and it changed its rhetoric to that of an easing bias going forward, despite inflation pressures.

## Market Review\*

- The Australian share market (S&P/ASX 300 Index) returned -10.7% for the September 2008 quarter and -27.1% for the 12 months to 30 September 2008.
- International shares, as measured by the MSCI World Net Accumulation Index, returned for the September 2008 quarter 3.1% unhedged and -11.2% on a hedged basis and -17.0% and -23.4% respectively for the 12 months ending 30 September 2008.
- The Australian bond market (UBS Australian Composite Bond (LBD) Index) returned 5.3% for the quarter and 8.1% for the year ending 30 September 2008.

\* All performance returns are before tax and investment management costs

## Change to investment options

The Trustee understands that some members would like to change their investment options more often than quarterly and is currently considering how and when this could be implemented. You will be advised as and when any change is made.

*However, the trustee will now allow members to change where their future contributions (i.e. regular contributions from payroll) are invested at any time. This may assist members who are making large contributions to the fund who would like these contributions to be invested differently from their member account balance. You can make this change at any time by advising the trustee in writing or by completing the relevant form on the website and submitting it to the fund.*

## Member survey

The Trustee would like to thank members for completing the member survey conducted by Watson Wyatt in July.

Overall the response was very supportive of the fund with 75.8% of respondents stating that it was important to them that those looking after their super were also members of the fund.

Members also listed a number of items they would like the fund to offer, including more frequent investment switching, more frequent account balances, and limited personal advice. The trustee is now looking at each of these items and will let members know as changes are made.

## Net earning rates

Although the investment results for the quarter ended 30 September 2008 were disappointing it is important to remember that for most members superannuation is a long term tax effective investment. Therefore, the long term investment performance is important, which is why we have provided the 5 year compound average net earning rates in the following tables. Please also read the opening commentary under *Investments*.

### Division Two – net earning rates (i.e. after tax and indirect management costs)

Option	Quarter ended 30/09/08	5 Year compound average to 30/09/08 % p.a.
High Growth	-6.22%	9.00%
Moderate Growth	-3.76%	8.04%
Lower Growth	-0.73%	6.33%
Protected	1.57%	5.27%
Capital Secure	1.42%	5.83%

### Division Three – net earning rates (i.e. after tax and indirect management costs)

Option	Quarter ended 30/09/08	5 Year compound average to 30/09/08 % p.a.
High Growth	-6.22%	8.97%
Moderate Growth	-3.77%	7.91%
Lower Growth	-0.76%	6.31%
Protected	1.59%	5.25%

### Allocated pension - net earning rates (i.e. after indirect management costs)

Option	Quarter ended 30/09/08
High Growth Pension	- 4.94%
Moderate Growth Pension	- 3.10%
Lower Growth Pension	- 1.58%
Protected Pension	1.90%

**Note:** the pension options have different asset allocations than the Division Two/Three options and will therefore have different investment performance results.

### Authorised representatives

The Trustee is not licensed to provide personal financial product advice, which is advice relating to your own particular circumstances which may influence decisions you make. The following representatives have been authorised by the Trustee of the Harwood Superannuation Fund (Harwood Nominees Pty Limited) to provide *general* financial product advice.

- Kristen Broder
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- Melissa Gomes
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