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Super funds staging a comeback

Prepared by Certainty Financial - advisers to your employer superannuation plan

Key Points

- Improved performance in sharemarkets have seen super funds stage strong gains in recent months.
- Despite these gains, super funds will post negative returns for the second year running in their mainstream portfolios (eg. Growth, Balanced, Stable portfolios)
- Unlisted assets were initially sheltered from the market volatility but are now suffering write-downs. This has a greater impact on industry funds than master trusts.
- Recent labor participation figures released by the ABS reveal Australians are putting off their target retirement age (page 2)

As reported in the Certainty Superannuation Update in April 2009, shares have continued to stage strong gains since March 2009 and the improved results have been flowing into superannuation fund returns.

Super funds have clawed back almost 9% of their assets wiped out by the financial crisis last year. According to a performance survey of 41 super funds conducted by independent research group, SelectingSuper, the average performance of the balanced fund option of a super fund has climbed from an all-time low of -21.1% in December 2008 to -12.3% as at mid-July.

Does this suggest the worst is behind us? Possibly. There is a growing list of expert commentators who believe this will prove to be the case.

Dr Shane Oliver is the Chief Economist of AMP Capital. In a recent bulletin (dated 23 July 2009) he states... "Finally there are good reasons to expect better returns ahead... With increasing evidence of an approaching economic recovery, the profit outlook is likely to improve, and this, coupled with the fact that shares are very attractive compared to low yielding cash and bonds, should help them recover further going forward."

The recent recovery in shares has not been strong enough to wipe out the losses of the first nine months of the 2008-09 year. The overall picture is one that has resulted in superannuation funds posting negative returns for the second consecutive year. This will be reflected in your 30 June 2009 annual statement. Look for further commentary from your super fund that accompanies your next statement.

Unlisted assets impacting industry funds

While recovery seems well underway for listed assets (such as shares) the same can't be said of unlisted assets such as direct property and infrastructure assets. Unlisted assets are valued on an infrequent basis and are not subject to the daily rises and falls that impact listed assets such as shares and Real Estate Investment Trusts (REIT). As a result, unlisted assets have been sheltered from much of the market volatility during the recent tough times.

Over the past six months there has been significant write-downs of unlisted assets. The Certainty Superannuation Update of April 2009 drew attention to this likelihood, and further stated that the revaluation of unlisted assets would have more of a negative impact on **industry funds** than master trusts, as industry funds invest more heavily in unlisted assets.

To illustrate how the write-downs can impact returns, the latest investment performance tables reveal that MTAA (Motor Traders Association of Australia industry fund) has dropped from its previous number one ranking down towards the bottom of the surveys for the past 3 month and 12 month periods. While not all industry funds have experienced such a dramatic fall, most are starting to feel the effects of the exposure to unlisted assets.

MTAA's sudden fall in the rankings in the investment performance tables illustrates the risks associated with using past performance results as a basis for choosing a preferred superannuation fund. There are often sound and valid reasons why one fund has outperformed another over a one, three or five year period. Sometimes a fund could be coming to the end of an investment cycle that has been favourable to its investment management style or asset allocation. The immediate cycle it faces might be more challenging and less likely to produce the returns they've achieved in the past. If you are looking to make superannuation investment decisions it pays to seek further advice.

Melbourne Office

ABN 29 006 064 786

Suite 2, 670 Canterbury Road

Surrey Hills Vic 3127

Tel: 03 9890 0222 Fax: 03 9898 2352

Email: corporate@certainty.com.au

Sydney Office

ABN 86 102 225 785

Ground Floor, 221 Miller Street

North Sydney NSW 2060

Tel: 02 8912 5800 Fax: 02 8912 5801

Web: www.certainty.com.au

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Australians putting off retirement

Unfortunately, one effect of the global financial crisis is that many people have had to push back their retirement age. But recent data released by the Australian Bureau of Statistics suggests that the trend to work to an older age has been with us for some time.

Thirty years ago, 55% of Australians aged 55-59 were working compared to 72% today. Of those aged 60-64, around 35% were working then compared to 51% now. And of those aged 65-69 only 9% were working 30 years ago compared to almost 29% today.

There are numerous reasons why the urge to retire is not nearly as strong as what it once was. Ideally, people who go beyond their originally intended retirement age are working because they **want to** - not because they have to.

We would all like to have control over when we retire. Your health and financial position is ultimately what determines when you do.

Financial strategies around your superannuation, home ownership, and other investments and assets, will have a bearing on your future financial position.

The earlier you build a clear plan the more likely it is that you will be able to **retire on your terms**.

If you would like assistance on building your retirement plan then ask to speak to one of our financial advisers.

Certainty Financial

Melb: 03 9890 0222 (Toll free 1800 680 141)

Syd: 02 8912 5800

Email: corporate@certainty.com.au