

# Market update

## 2007/2008 annual market commentary

In Australia the 2007/08 financial year saw:

- Solid economic growth moderating towards the end of the financial year
- Particularly weak performance from Australian and global share markets
- Four interest rate rises by the Reserve Bank of Australia (RBA) aimed at curbing inflation.

Below is a summary of the performance of each major asset class over the year.

### Asset class performance

#### Australian shares

After four consecutive years of double digit returns, the Australian share market recorded its weakest financial year performance since 1981/82, shedding 13.7% for the year to 30 June 2008 (as measured by the S&P/ASX 300 Accumulation Index). Continued strong corporate earnings growth from the resource sector, and strong performance by energy stocks, failed to offset weak performances from industrial shares, particularly the financial sector. RecruitmentSuper's Australian share managers performed broadly in line with the index, returning -13.8% after fees.

#### International shares

The performance of the global share market in 2007/08 was generally very weak, particularly in the financial sector, where many global banking institutions suffered significant write downs on securitised loans. The effect of the rising Australian dollar against many foreign currencies was a further drag on the performance of unhedged investments for Australian investors, with hedged international investments producing relatively stronger returns. The MSCI World ex-Australia Index in Australian dollars (unhedged) returned -21.3% for the year, while the return on hedged international shares was -13.7%. The Fund's international share managers returned -15.0% after fees.

#### Property

Australian direct property, showed resilience compared to shares and listed property – with the index returning positive 14.7% over the year. RecruitmentSuper's direct property managers returned 10.1% for the year.

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## Cash and Fixed interest

The Australian fixed interest market delivered a solid performance in 2007/08 relative to shares, despite multiple interest rate rises favouring shorter-term fixed interest investments (i.e. cash) during this period. The main cash index (the Australian 90 Day Bank Bill index) returned 7.4% for the financial year, providing strong defensive returns for those invested predominantly in cash. The main bond index (the UBSA Composite Bond Index) returned 4.4% for the financial year.

International fixed interest markets outperformed the Australian fixed interest market, with the Lehman Brothers Global Aggregate Index (hedged to Australian dollars) returning 7.9% for the year. Globally, many investors suffered losses through exposure to securitised credit products, especially those associated with the US sub-prime mortgage market.

RecruitmentSuper's fixed interest managers did not have any significant exposure to this sector, and performed in line with their respective benchmarks.

*Please note asset class index returns are gross of tax. Investment manager returns are gross of tax and net of investment management fees.*

## Investment option performance

The performance of RecruitmentSuper's investment options for the year ended 30 June 2008 is summarised below.

### Trustee portfolio\*

The return for the year was -5.2%, with an average return over three years of +7.7% p.a. The average return over the last five years was +8.9% p.a. The return for 2007/08 was adversely impacted by exposure to the negative performance of Australian and overseas shares, with the Fund's unlisted property, fixed interest and alternative investments counteracting this to some extent.

\*The Trustee Portfolio is the investment strategy default option for members of EasyChoice and EasySuper.

### Balanced growth\*

The Balanced Growth option returned -5.3% for the year, with the average return over the last 3 years being +7.5% p.a. The average return over the last five years was +8.8% p.a. Performance for the year was adversely affected by its Australian and overseas share exposure, which was offset to some extent by positive contributions from the investment in unlisted property, alternatives and fixed interest markets.

\*The Balanced Growth option is the default investment option for members of SelectSuper and SelectPlus.

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## Cash plus

The Cash Plus option achieved a return after fees and taxes of +4.0% over the year. Whilst Australian interest rates rose over the year, weakness in the US sub-prime market and the subsequent credit difficulties adversely impacted the active management component of the Cash Plus option, which moderated returns.

The average return for the Cash Plus option over 3 years was +4.8% p.a., and over 5 years was +4.7% p.a.

## Conservative growth

The return for the Conservative Growth option was +1.5% for the year. The option's defensive investment strategy, including significant exposure to Australian and overseas fixed interest and cash, helped the option to deliver a positive return despite very weak share markets.

The average return for 3 years was +5.5% p.a., and over 5 years was +6.1% p.a.

## High growth

The High Growth option returned -7.0% over the year. The option's significant exposure to Australian and overseas shares had a negative impact on performance, with exposure to alternative investments such as infrastructure and hedge funds and some fixed interest and cash investments, contributing positively to performance.

The average return for 3 years was +7.6% p.a., and over 5 years was +9.3% p.a.

## Aggressive growth

The Aggressive Growth option returned -9.0% for the year. This option was fully exposed to growth-oriented investments, which negatively affected performance.

The average return over 3 years was +8.1% p.a., and over 5 years was +10.0% p.a.

*Investment option returns are net of tax and investment management fees.*

## Looking forward

Continued volatility, uncertainty in financial markets and the follow-through effects of the US sub-prime credit crisis are likely to persist in the near future. Although the domestic economy has held up relatively well to date, factors such as rising fuel costs, high interest rate and slowing economic conditions are expected to lead to a further moderation in domestic growth rates. Combined with the current mixed economic conditions being experienced offshore, this is likely to result in continued uncertainty in investment returns going forward.

The factual performance information in this report is sourced from the Fund. The commentary in this report is provided by the Fund's investment consultant—Watson Wyatt. This report is designed to provide an insight into the investment option choices that are available to you, as well as providing an update on the current investment strategy. The information does not constitute financial advice, nor should you make any decisions based on this information alone, and in particular please note that past performance is not a reliable indicator of future performance. You should consider consulting a professional financial adviser before making any investment decisions.

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