

# Investment Fact Sheet

## Investing in superannuation

#01

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Compulsory superannuation for working Australians has become the cornerstone of the Australian Government's strategy for funding our retirement. The Government is keen to reduce our reliance on the Age Pension for our retirement income.

One of the *Better Super* changes to superannuation, which took effect from 1 July 2007, removed the tax on retirement benefits received from taxed superannuation once you reach age 60. This change in particular has made superannuation a very tax-effective means of funding retirement. Even during your working years, superannuation may provide you with a tax-effective investment vehicle for building wealth over a lifetime.

This publication explains some of the basics about investing in superannuation. It aims to help you understand the type of assets in which super funds invest, the risks associated with them and their relative performance over time. Our companion investment publication, *Investing with Equipsuper* describes the specifics of the investment options we offer.

If you are considering joining Equipsuper, or you have an accumulation account with us already and are considering investment choices within the Fund, you should always obtain and consult the Product Disclosure Statement (PDS) relevant to your membership.

### Starting early builds more savings

Planning ahead for your retirement enables you to make strategic decisions about how to tailor your investments to best suit your individual circumstances and needs.

The earlier you start, the greater the effects of earnings over time and the greater the potential rewards of investing in the more aggressive growth assets like shares (equities) and property. While these asset classes are subject to greater levels of volatility and therefore negative returns, these assets have outperformed more conservative assets such as cash and fixed interest over the longer term.

This reflects a fundamental investment rule. You must consider not only the potential returns from your investments, but also the level of risk with which you are comfortable and your investment horizon (how long you will invest in the market or asset). Super is not only about allowing you to retire with confidence, but also about providing a sense of security and a positive outlook while you are working.

Once you have a long-term investment strategy, stick to it. You can make big mistakes trying to second-guess market movements. We do not recommend frequent switching between asset classes or even diversified investment options. If you are switching, it should only follow a thorough review of your long-term investment strategy.

We recommend you see a professional financial advisor to assist you in putting together a strategic financial plan that will work for you. If you would like to see a financial planner from Equipsuper Financial Planning, please call 1800 065 753 to make an appointment.

You can obtain our latest investment returns and unit prices for our investment options on our website.

This brochure is for general information only. It has been prepared without taking into account your personal objectives, financial situation or needs. You should consider whether this information is appropriate to your personal circumstances before acting on it and, if necessary, seek professional financial advice. If you are considering investing in the Equipsuper Superannuation Fund ABN 33 813 823 017, you should read the appropriate Equipsuper Product Disclosure Statement (PDS) before making an investment decision. You can obtain a PDS via our website or by contacting the Helpline.

The taxation information included in this brochure is a general guide only. As taxation laws are complex and individual circumstances vary, you should seek individual taxation advice from a qualified advisor.

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For full information about the services and remuneration of EFP, please refer to the EFP Financial Services Guide, available by contacting 1800 065 753, or on the website [www.equifp.com.au](http://www.equifp.com.au).

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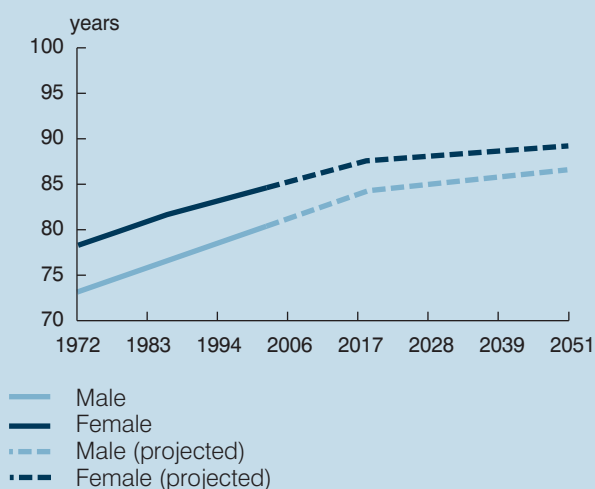
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### Live life to the full – for longer!

Life expectancies for men and women are increasing all the time, so there is a real chance that if you retire around age 60, you will need enough investments to fund your retirement for more than 20 years.

Not only should your super provide you with a retirement income, it should, where possible, continue to maintain or even increase its capital value. Products like allocated pensions enable you to maintain your investments in a tax-free environment while paying you an income for as long as your account balance lasts.

### Australian Life Expectancy



(a) Data for 1970-72 and 2002-04 and projections to 2051

Source: Australian Bureau of Statistics (ABS) Ref. no. 4.31, Australian life tables 1970-72 prepared by the Australian Government Actuary; Deaths, Australia, 2004 (ABS cat. no. 3302.0); ABS Population Projections.

*Life expectancy from the ABS show that future generations can expect to live even longer than we do now. This creates additional challenges for funding retirement and the importance of understanding the role superannuation can play in not only building retirement savings, but offering income products that help to extend your working life if you wish.*

### Why investing in super is tax-effective

Super can be a great way to save tax effectively – no matter what your age. This is because the Australian Government has made significant tax concessions to superannuation savings and retirement income to encourage us to build our super.

Younger members may like to consider super more as a long-term tax-effective investment option rather than as a retirement savings strategy.

Recent superannuation changes have emphasised the need to make more contributions earlier in your working life. This is because the new rules placed limits on amounts you and your employer are able to pay into super tax-effectively. It is now therefore less viable to rely on 'catch-up' strategies to increase contributions close to retirement.

This publication focuses on investing in super, it does not cover tax or limits on contributions in any detail. For more information on contributions tax and limits, you should refer to an Equisuper PDS or contact our Helpline 1800 682 626.

#### Tax on investments in accumulation accounts

If you have an accumulation account, there are tax concessions on the investment earnings generated for you within the fund.

Super funds only pay a maximum of 15% tax on investment earnings. For many working people, this is considerably less than they would pay at the marginal tax rates on their personal income.

The 15% tax rate may reduce if money is invested in the shares of some Australian companies that pay franked dividends.

Fully franked dividends are credited to investors (including super funds) by the Australian Taxation Office (ATO) at the company tax rate of 30%. If any of your superannuation investments receive fully franked dividends, the excess tax refund on dividends from those shares at a rate of 15% (Company tax rate – Super fund tax rate), is used to offset other tax. This brings down the overall rate of tax on investment income in the Fund. (For dividends received from companies that are only partially franked, the tax credit would not be as great).

Depending on the type of investments they hold, super funds also receive tax concessions on Capital Gains Tax (CGT) payable on any profits made when they sell capital assets, for example shares and property assets.

#### Tax on investments in pensions

For investments held in an Account Based Pension, or Transition to Retirement Pension, the super fund pays no tax on earnings. Pension accounts with investments in Australian shares still receive tax credits from franked dividends paid by some listed Australian companies (up to the full company tax rate of 30% on fully franked dividends). This explains why the after-tax investment earnings for pension accounts sometimes exceeds the before-tax, or gross returns reported for pensions. Of course, income paid to you may still be taxable.

### The ups and downs of investing

As we have seen from recent market turmoil, super is not immune from the upward and downward cycles of investment markets. Within super, there is a risk of loss associated with any investment option, however some asset classes have historically proven to be less volatile (prone to up and down fluctuations) than others.

With the exception of cash, all types of investments deliver returns (positive or negative) in cycles. After several years of strong, positive returns, the significant declines suffered over the past 12-18 months are proof of this.

Generally, wherever you invest you will experience periods of negative or low returns. You will also, to some degree, experience periods of strong returns in growth assets. The degree of rise and fall depend on the types of assets you invest in and the following investment principles:

#### 1) Time and the market

Time can reduce the impact of investment volatility or risk. This is why considering investment performance over the long term is critical when making investment decisions.

Another critical factor when looking at a long-term investment like super is assessing performance over extended timeframes – five to seven years at least. This is very relevant if you have invested in growth assets like equities and property, which can be very volatile.

For example, if you looked at the performance of share markets over only one year, you may see dramatic growth or a substantial fall, depending on recent history. This could mislead you into thinking shares are a 'good thing' or should be avoided at all costs, depending on what you saw. It may also influence your choice of super fund, depending on whether one fund had been 'lucky' enough to be in the right shares at the right time.

The best measure is the long-term performance of both the investments themselves and the people who manage them. Time eventually irons out the dramatic up and down swings in investment markets and allows sound investment practices and management to shine through.

Monitoring the performance of your super should be a regular part of your investment management. However, you should be aware of the pitfalls inherent in surveys and short-term perspectives. And remember, no matter which super fund you consider, past investment performance is no guarantee of similar returns in the future.

#### 2) Reducing risk through diversification

Any good investment advisor will tell you not to put all your eggs in one basket when you invest. Spreading your investments across and within asset classes is called diversification and it can be one of the most powerful risk reduction tools over the long term.

The easiest way to diversify your investments is to put your money into diversified investment options, which are professionally managed to appropriately balance risk and return across the main asset classes of shares, property, fixed interest and cash.

Most major super funds offer several diversified investment options of different weightings of the various asset classes. This allows you to increase your exposure to, say, Australian shares or towards less volatile investments like cash by choosing a portfolio of asset weightings you are comfortable with.

In other words, you can select from a range of diversified options to suit your investment timeframe and to achieve what you believe is an acceptable balance of return and risk for you.

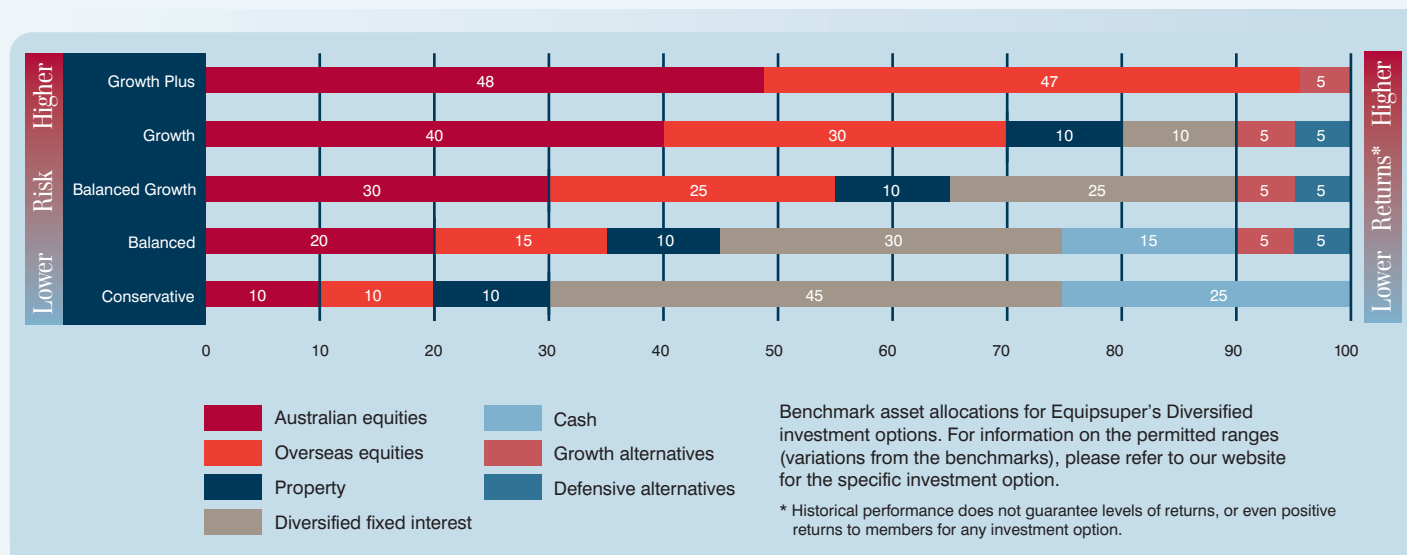
If you are more confident in your ability to develop your own investment plan, or are receiving professional investment advice from a qualified advisor, you can also manage your own asset allocations by choosing a mix of sector specific options which are allocated to particular asset classes.

If you choose this route, you should ensure you have a plan in place to regularly monitor your asset allocations, as different levels of performance between asset classes can substantially change the proportions of your exposure to them.

The risks associated with different asset classes vary. For more information on the investment options available in Equisuper, you can read our *Investing with Equisuper* fact sheet or obtain a copy of an Equisuper PDS.

### Diversified options - Benchmark asset allocations

The weightings of each asset class in each Equipsuper Diversified investment option are shown in the diagram below.



### Asset classes and risk

We will now look at each of the asset classes that make up each Sector Specific option in Equipsuper as well as a portion of each of the Fund's Diversified options.

#### Investing in shares (equities)

Share investments can include Australian and/or international equities. In super, Australian share investments generally include investments in the top 300 companies listed on the Australian Stock Exchange (ASX), as represented by the S&P ASX300 share index.

As well as the larger companies, this also includes a proportion of smaller companies, commonly referred to as "small caps". These are stocks whose market capitalisations are outside the top 100 companies listed on the ASX. The same applies for international share investments. Usually funds employ specialist investment managers for overseas investments. They primarily invest in the leading, large cap companies on various international stock exchanges. The majority is invested through major stock exchanges in the United States, United Kingdom, Europe, Japan and Asia.

A smaller proportion of funds may be invested in so-called emerging economies, such as South Korea, Russia, China, India and Brazil. These allocations generally aim to take advantage of the growth potential in these economies, although the values of their locally traded stocks may be more volatile.

Over the long term, returns from Australian and international shares have outperformed other asset classes. However, due to their greater potential volatility, the losses experienced can be quite spectacular. For this reason, you should take a long term view when investing in shares.

#### Risk

Share markets go up and down, but generally trend upward over the long term. The risk associated with share investments is linked to economic trends both here and overseas, interest rate movements, political change, consumer spending, employment levels, inflation, investor confidence – a complex mix of financial measures. The long-term upward trend for sharemarkets is due to the growth in the capital value of companies.

The risk, of course, is that some companies can shrink or disappear due to these cycles, changes within their industry sector, or just bad management. That is why you should diversify your share investments across a number of companies and industry sectors.

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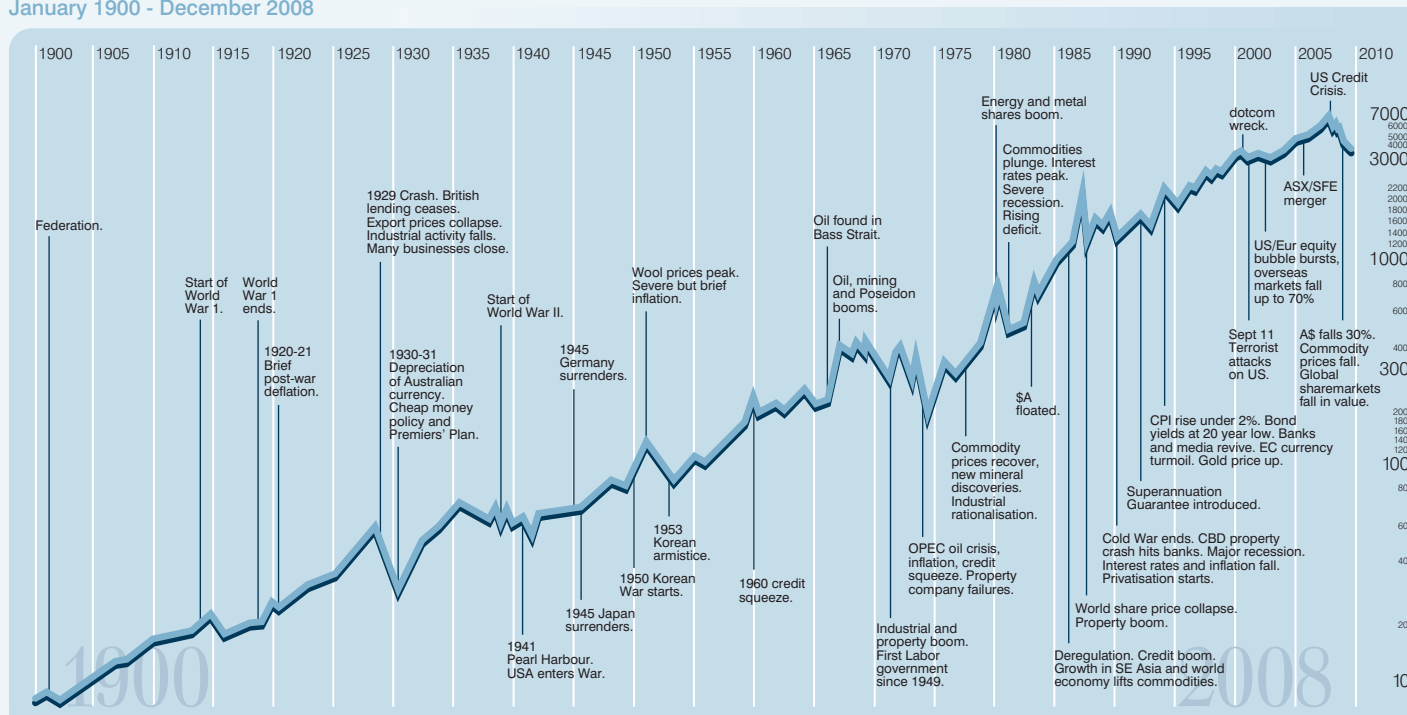
For all international share investments, the Australian Dollar's exchange rate relative to overseas currencies can add volatility to investments.

From an Australian Dollar perspective, if you are investing in overseas share markets, the value of your investment will decline if the Australian Dollar increases in value against other currencies. Of course, the opposite is true. If the Australian Dollar declines in value relative to other currencies, then the overseas shares are worth more. To offset this currency risk volatility in returns from international share investments, some super funds hedge or partially hedge against currency fluctuations.

*The diagram below shows the long-term share price movements for Australian shares.*

### Australian Share Price Movements

January 1900 - December 2008



Source: Chart adapted from Standard and Poor's / Australian Stock Exchange chart, which includes the following notes:

Standard & Poor's is the owner and operator of the S&P/ASX index series, including the All Ordinaries. The All Ordinaries, which is used for this chart, was the benchmark equity index for the Australian market up until March 2000, at which point the S&P/ASX 200 was introduced. For more information about the Standard & Poor's Australian index series visit [www.standardandpoors.com.au](http://www.standardandpoors.com.au). The chart shows the course of share prices on Australian stock exchanges from 1900.

It is based on monthly averages from the ASX All Ordinaries Share Price Index (1980-2000), the Sydney All Ordinaries Share Price Index (1936-1979) and the Commercial Industrial Index (1875-1936). From April 2000 this Chart follows monthly averages for the All Ordinaries. A logarithmic vertical scale has been used to show the proportionate importance of fluctuations over the period.

### Investing in property

Due to the high level of home ownership in Australia, many of us feel more comfortable with property investment than we do with shares. Apart from anything else, property is tangible, something you can visit, see and even add value to through renovations and so on.

Super funds may invest directly in property, by buying buildings, and/or also invest indirectly through listed and unlisted property trusts. Generally, indirect investments are similar to share investments. Funds buy units (like shares) in the trusts which provide investment diversification through exposure to many properties and developments, including retail, industrial and commercial.

An advantage of using trusts for property investment is that it may increase liquidity by making it easier to sell your units to other investors, rather than actually having to sell buildings.

#### Risk

There are risks associated with property investments linked to economic drivers like employment levels, consumer confidence and, in particular, interest rates.

Like shares, the long-term trend in property prices is generally upwards, but the market can flatten out and even be negative, particularly if there are sustained rises in interest rates. Historically, returns have been higher than fixed interest bonds over the longer term but with higher risk.

### Investing in fixed interest

It is important to understand that the fixed interest sector in which super funds invest does not exclusively invest in arrangements with which most of us are familiar, like bank term deposits, savings accounts and so on. Super fund fixed interest investments are usually constructed around bonds, which may be traded and go up and down in value.

Bonds are issued by government, semi-government and, occasionally, by large companies. They are issued for periods of up to ten years or more and usually entitle you to regular interest payments at an agreed rate over a fixed period, plus the return of your original capital at the end of the term.

There is a special class of bonds called "indexed bonds". These are similar to nominal bonds, but are also indexed to inflation. They offer investors some insurance against rises in inflation.

#### Risk

Many investors may confuse fixed interest investments with term deposits, which offer fixed interest rates, and a return of the original amount of their investment. This is not necessarily the case for other types and does not apply for Equipsuper's diversified fixed interest investments. It is fair to say, however, that fixed interest is generally a relatively lower risk investment than equities and property.

The bond market is a complex trading environment, driven by economic factors, investor sentiment towards growth assets like shares and interest rate movements.

If interest rates go up while you hold bonds, their value will fall because the fixed return offered becomes less attractive. If interest rates go down, the value of your bonds increases.

Over the long term, fixed interest will generally deliver a lower yield than growth assets. There are times when the regular income payments that fixed interest provides make this type of investment attractive.

### Investing in Alternatives

Alternatives are assets such as non-listed equities, infrastructure and hedge fund investments that allow investment managers to take advantage of special investment opportunities that may arise in these sectors. Equisuper divides the Alternatives asset class into Growth Alternatives and Defensive Alternatives. Many funds simply bundle these all together under the "Alternatives" umbrella, but you should be aware that the performance and risk associated with underlying "alternative" assets can vary.

Growth Alternatives are investments like airports, which may provide greater long-term growth opportunities, but potentially greater volatility in returns due to a variety of factors and trends affecting travel.

Defensive Alternatives might include investments in infrastructure like gas pipelines, which generally benefit from consistent revenue streams.

#### Risk

The risk associated with well-selected Alternatives is similar to investments in Australian and overseas equities. For the reasons outlined previously, returns from Growth Alternatives are likely to be more volatile than for Defensive Alternatives.

### Cash

This is not just money in the bank but also money invested for a short time in money market securities such as bank term deposits and bank bills.

#### Risk

The risk associated with cash investments (money in the bank and term deposits) is relatively small, although the potential investment upside is also minimal, compared with more volatile assets such as equities and property. Cash can be a safe haven in times of economic uncertainty and may provide a means to preserve capital.

### Sustainable Responsible (Ethical) Investing (SRI)

Some people like to invest in organisations that act with social responsibility to the community and environment or are aligned with their own ethical code. Another element usually considered for SRI investments is governance - or the quality and integrity of company management and boards.

In superannuation, SRI investors look to funds that offer a portfolio of sustainable responsible investments that are screened negatively (against) inclusion on a published set of criteria and/or screened positively (favourably) for inclusion on specific grounds.

Broadly, most sustainable responsible or ethical investment portfolios are constructed around shares (this is the case for Equisuper's SRI option) but some may include property or other financial instruments owned or issued by sustainably responsible organisations.

The performance of these investments can be better or worse than for investment portfolios that are not screened against SRI criteria. Their performance will be dictated by the performance of the underlying assets.

#### Risk

The risk for sustainable responsible investments is aligned with the risk of their underlying assets. If, for example, they are 100% invested in Australian shares, then the risk will be similar to any other share portfolio, taking into account that socially responsible investment criteria may exclude stocks that are performing well on solely economic grounds over a period of time.

### Monitoring performance

Everyone's expectation of investment performance is different. In past research, some Equisuper members indicated they thought a 10% return on investments met their expectations. Others said they used bank rates advertised in the media as a guide.

True assessment of performance should be based on comparing 'apples with apples'. For example, if you have invested in property, you should compare the performance of your assets with the other property assets you hold directly or through an investment fund. The investment return on a residential property will differ significantly from that of a commercial property and is not a comparison of 'apples with apples'.

### Surveys

A lot of investors find published ratings and surveys by investment managers are a guide to how a fund is performing relative to its peers. However, if you are using surveys, like the readily available SuperRatings, SelectingSuper or Mercer surveys, you should be careful about the 'apples with apples' rule when looking at the performance of diversified investment options.

These surveys for, say, a 'Balanced' investment option compare the investment returns of the balanced options of various fund managers, some of which have substantially different asset allocations.

Some 'Balanced' options have a 50/50 split between growth and defensive asset allocations, while others in the same survey may have a 60/40 split or even 70/30. This can make a huge difference to the returns that you can reasonably expect from the 'Balanced' options compared in the survey, particularly when one asset class is growing very strongly relative to others.

### The cost of managing your investments

Investment costs are usually separate from the administration costs associated with managing your superannuation account.

Indirect Cost Ratio (ICR) is the term used to describe the costs associated with investing your money. It includes an estimate of management fees and performance bonuses paid to external fund managers and/or costs associated with running an internal team of investment specialists. Performance bonuses are sometimes paid to external managers who deliver investment returns that outperform agreed targets – in other words, deliver additional value to members.

In some instances where an asset class, for example Australian shares, is both externally and internally managed, the ICR associated with that asset class will be a calculation taking into account both external and internal management costs.

The best place to find and compare information on the ICRs for investment options is to look in the Product Disclosure Statements issued by super funds.

### The cost of buying and selling assets

Transaction costs are usually not included in the investment costs (ICRs) described above. Super funds use different methods for recovering the cost of your transactions. Some charge a flat fee or a fee calculated as a percentage of assets you are buying or selling for switching between investments and making contributions. Some funds, like Equisuper, use what are known as buy-sell spreads.

Buy-sell spreads are simply factors applied to the base unit price of the investment option in which you have invested. They represent the cost associated with buying and selling those assets.

When you contribute to a super fund that has buy-sell spreads, you purchase units in investment options at their buy price. Your account balance is calculated on the sell price of the units. This means when you make a contribution, the cost of purchasing your investment is represented by the difference between the price you buy at and the sell price, which determines your account balance.

If you do not switch between investment options you do not incur any additional transaction costs. If you receive your benefit you do not incur transaction costs either, as your account balance is calculated on the unit sell price.

We provide more information on how buy-sell spreads work in our fact sheet, Investing with Equisuper, available from our website or Helpline.

### Seek advice

As investment matters can be complex, we recommend you obtain financial advice from a licensed financial planner to ensure you maximise your super and choose investments that fit your personal investment and risk profile.

If you would like to speak to an Equisuper Financial Planner, please call 1800 065 753, or you can visit their website at [www.equipfp.com.au](http://www.equipfp.com.au) for further information.