

Welcome to the January 2009 edition of IntheKnow – Combined Fund’s newsletter that keeps you ‘in the know’ on superannuation matters and how to make the most of your superannuation benefits.

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2008 – WHAT AN AWFUL YEAR!

After peaking on 9 October 2007, the four and a half-year sharemarket boom ended in the USA and, by 20 November 2008, their sharemarket had fallen almost 52%. Other countries soon followed. Australia’s sharemarket peaked on 1 November 2007 and had fallen 51% by 20 November 2008.

By 31 December 2008, the Australian sharemarket had recovered by almost 10% and the US sharemarket had recovered by just over 20%.

However, the Australian sharemarket was still down 43% for the year (All Ordinaries Index) and international sharemarkets were down almost 39% (Morgan Stanley Capital International Index – excluding Australia) for the year.

The commercial property market had already been struggling for much of 2007 and listed property trusts fell by 54% for the year ended 31 December 2008.

Fortunately for members, Combined Fund’s conservative investment approach during 2008 meant that a good deal of the downturn was avoided. See the back page of this newsletter for 2008 returns and unit prices at 31 December 2008.

Whilst none of us likes to see negative returns, it may provide some comfort to know that your returns compare very favourably with those of other super funds (including those funds involved in the education sector). A comparison of our returns with those of other funds is included as an insert with this newsletter.

Table 1 of the insert shows how the investment markets performed overall (ie. sharemarkets, commercial property markets and cash) and also compares Combined Fund’s returns for the year with the average returns for Australia’s large super funds. For example, even though the Australian

sharemarket was down 43% for the year, Combined Fund’s Australian Share Option return was down only -31.3% compared to an average return of -35.4% for large super funds.

Table 2 compares Combined Fund’s returns with those of other funds in the education sector. For example, Combined Fund’s Australian Share Option return of -31.3% can be compared with returns of -38.5%, -33.3% and -36.7% from other funds.

Our annual report and your benefit statement will be issued to you around the end of February once the Fund audit has been finalised.

SHOULD I BE IN CASH?

Compared to almost everything else, cash is looking pretty good at the moment. After all, wouldn’t you rather have had a return of 6.1% in Combined Fund’s Interest Option for the past year than, say, -18.6% in the Balanced Option.

Of course you would but, only a little more than a year ago (October 2007 – before the sharemarket downturn commenced), the return from this now attractive looking option wasn’t looking so flash ie an average annual return of 4.6% for the five years to 31 October 2007 compared to the Balanced Option’s average annual return of 11.3% for those five years.

Combined Fund’s Interest Option is 100% invested in cash (ie. in fixed term deposits currently with ANZ and Westpac banks) and replaced the Cash Option in late 2007.

With a large dose of hindsight, you might have switched from, say, the Balanced Option to the Interest Option in October 2007 and avoided the impact of the sharemarket downturn.



That may be fine for the short term but what happens when the investment markets inevitably recover and you're still in cash?

During the first year of recovery after each major downturn in the past 50 years, the Australian sharemarket has returned an average of 32% and the US sharemarket has returned an average of 33% (Australian Financial Review 1 November 2008). In fact, research shows that, after the 15 major downturns in the USA since 1932, the lowest recovery in the following year was 21%, the highest was 121% (1932 – after the Great Depression) and the average was 46% (Australian Financial Review 6 January 2009).

With interest rates dropping further in 2009, how will your cash return of, say, 4% a year look when the sharemarkets recover?

Of course, you could switch back out of the Interest Option to take advantage of the market recovery but how will you know when the time is right?

Human nature dictates that, when markets are booming, you won't switch into cash (well – you didn't, did you?) and also that you won't switch back out of cash whilst the markets are still down (in anticipation of a recovery).

Even when the sharemarkets start rising again, would that be the right time to move? What if it's only a temporary recovery and the sharemarkets drop away again?

Maybe you would wait until there has been a sustained recovery. A year perhaps. After all, you'll probably be earning around 3-4% a year by then (as interest rates drop further). But, based on the 9 major market downturns in the last 50 years, you'll have missed out by then on your share of the market recovery (remember the 32% and 33% average returns in the first year of recovery?) 50% of the Balanced Option is invested in Australian and international sharemarkets and 55% of the Growth Option is invested there too, so at least half of any sharemarket recovery will be reflected in returns from those options.

THE HORSE HAS ALREADY BOLTED

Thinking of switching to cash now? It's probably a bit late but it could still be a reasonable decision:

- **If** the market downturn continues for an extended period (say, another year or more); and
- **If** you are clever enough to time your switch back out of cash to take advantage of the inevitable market recovery.

As a first step, let's agree now that you're not that good at timing either market downturns or market recoveries. After all, if you were that clever at it, you'd be too busy sunning yourself on your yacht in Bermuda to be reading this.

Even though the investment experts regularly get it wrong, you might get lucky with timing occasionally but, honestly, it will almost certainly be pure luck and it's more likely that you will cost yourself a lot of money over time.

However, the Australian and US sharemarkets reached their lowest point for 2008 on 20 November and had recovered by 9.8% and 20.1% respectively by 31 December 2008. So, if the sharemarkets are moving into a period of recovery, there would seem to be little sense in switching to cash now.

BUT – AREN'T I LOSING MONEY NOW?

Every contribution paid to the Fund on your behalf (and by you) purchases units in your chosen investment option.

The amount of the contribution and the price of the units determines how many units are purchased for you.

For example, the unit price in the Balanced Option at 31 December 2008 was \$1.61852. A contribution of \$1000 would have purchased 618 units in the Balanced Option for you. Ultimately, the aim of the game is to amass as many units as you can because your account balance at any time is simply the number of units you have times the unit price at that time.

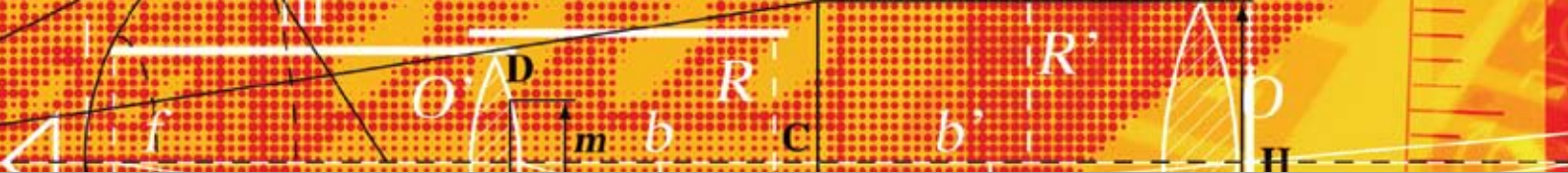
Obviously then, the best time to purchase units is when the unit price has reduced ie during market downturns. In October 2007, when investment markets were booming and we were all a lot happier with our investment results, a contribution of \$1000 to the Balanced Option would have purchased only 497 units for you (based on a unit price of \$2.01137) compared to 618 units in December 2008.

As the investment markets inevitably recover, the more units you have, the better off you'll be.

During market downturns, your existing unit holding doesn't reduce. All that happens is that, because the unit price reduces, the value of your units is, temporarily, not as great as it was previously. However, as the markets recover, so does the value of your units and, therefore, so does your account balance.

The investment "loss" is only a loss on paper. **It doesn't become an actual loss of money until you withdraw it or switch to a more conservative investment option.**

See our last newsletter (Volume 36 September 2008) for more detail. It's on the website at www.combinedfund.com.au if you haven't kept the copy we sent you.



WHAT ABOUT THOSE OF US WHO ARE NEARING RETIREMENT?

Understandably, one of the biggest concerns of retirees and those nearing retirement is the impact of a market downturn upon their retirement savings.

Just imagine **your** reaction if your retirement savings are in a Balanced Fund and drop in value by 20% just after you retire.

But – would it really be a disaster? Well, it would be if you withdrew every cent from your super fund account straight away (because, by doing so, you would realise a loss of 20% of your retirement savings).

However, as we have already noted, a loss of value on paper doesn't become an actual loss of money until you withdraw it or switch to a more conservative investment option.

Many people who retire don't immediately dip into their super savings. Most of the people we talk to receive a payout of leave entitlements etc from their employer and don't need to touch their super for some time after they stop work (by which time, the markets may have recovered and you'll have lost nothing).

Nevertheless, even when you are ready to start drawing on your super, you could still avoid realising an investment loss.

By transferring to a pension account in Combined Fund, you are able to not only nominate the investment spread you want but you can also nominate the investment sector from which your pension payments are made.

For example, if you are currently in the Balanced Option, the benchmark investment mix is, approximately:

- 33% Australian Shares Option
- 22% International Shares Option
- 15% Property Option
- 30% Interest Option

Upon transferring to a Combined Fund Pension account, you could establish the investment spread for that account in the proportions shown above ie you still have a Balanced spread (so you are not realising an investment loss by making this change) and then you could arrange for pension payments to only be drawn from, say, the Interest Option until the sharemarkets fully recover.

The Interest Option is a cash option, invested only in fixed term deposits with the four major banks (currently with ANZ and Westpac).

As long as you are not drawing money out of the share options, you are not realising losses. In this way, you can avoid the problem of realising losses each time you draw money from your account. This facility protects you against future market downturns too.

Lump sums could also be withdrawn just from the Interest Option.

When the sharemarkets recover, you can rebalance your investment spread to rebuild your cash holding.

SOMETHING ELSE TO THINK ABOUT

Many people think that, as they near retirement age, their investment arrangements should become more conservative.

However, age has nothing to do with your investment spread. Instead, you should be focussing upon when you will spend the money you are investing.

Let's assume that you live for 25 years or more after retiring. Obviously, a large amount of your retirement savings will be invested for much of that period.

In order for that money to last you through retirement, you need to make sure it is invested for growth over that long term. A conservative approach is likely to result in lower returns and your money running out early.

In the past 26 years (since 1983 when the Government first started tinkering with super) there have been seven negative years in the Australian sharemarket, including 2008. Despite that, the return from the Australian sharemarket was still almost 2½ times that of Cash over that period.

Cash did not have a negative return during that period and is unlikely to ever do so BUT Cash also produced the lowest return of all investment sectors over that period. Thus, it may not be appropriate to be too heavily invested in Cash for the long term.

THINK ABOUT INFLATION TOO

Inflation is the term given to the increase in the cost of living. It is measured by the Consumer Price Index (CPI) which records the changes in the prices of specific goods and services typically bought by ordinary Australian households.

Whilst the rate of inflation has been held close to the Government's target rate of around 3% for the past few years, it rose to 5% for the year ended 30 September 2008 and finished the year at 3.7%.



If the inflation rate remains at 3.7% for 2009, the return on your retirement savings must exceed 3.7% in order for your savings to grow. However, with official interest rates having dropped from 7.25% to 4.25% during 2008 and, with another cut widely predicted for February 2009, it's likely that returns from cash investments may not keep pace with inflation – particularly after allowing for the Government's 15% tax on investment returns in super funds.

The return from Combined Fund's Interest (Cash) Option for the year ended 31 December 2008 was 6.1% after tax but we expect this to be more like 4-5% for 2009. It could be even lower if the Reserve Bank continues to cut official interest rates.

MEMBER INVESTMENT OPTIONS – UNIT PRICES

The following are the respective Unit Prices and returns for each Investment Option as at 31 December 2008:

Investment Option	Unit Prices at 31/12/08 \$	Returns Year to 31/12/08 %
Australian Shares	2.28023	-31.3
International Shares	0.75217	-34.6
Property	2.42137	-4.8
Growth (80/20) - available since 1/07/05	1.11131	-18.3
Balanced (70/30)	1.61852	-18.6
Conservative (30/70) - available since 1/12/07	0.96582	-3.5
SRI Balanced* (74/26)	1.52132	-19.7
Interest - available since 1/12/07	1.06634	+6.1

NB: Past performance is not necessarily an indicator of future results.

The new Conservative and Interest Options were established on 1 December 2007 and replaced the Capital Stable and Fixed Interest Options and the Cash Option respectively. See the latest Annual Report for more details.

* The Sustainable Responsible Investment (SRI) Balanced option follows a balanced approach to investment and, with effect from 1 April 2006, replaced the former Ethical Shares option which had operated on a 100% allocation to shares.

The unit prices for Combined Fund's Pensions will be different from those shown above due to the different tax treatment of pension investments. During periods of positive investment returns, the returns for pension accounts are expected to be higher than those for super accounts. During periods of negative returns, the return for pension accounts are likely to be lower than those for super accounts.

See our website www.combinedfund.com.au for more details of Combined Fund's investment options.

INDEX COMPETITION

The winner of our last "Pick the Index" competition was John Ward of Newhaven College. John's prediction of 3989.4 was closest to the S&P/ASX 300 Index of 3996.8 as at 31 October 2008.

Predictions varied from a low of 3160 up to an admirably optimistic high of 4770.

What do you think will happen to the Australian sharemarket between now and 30 April 2009?

To predict the index as at 30 April 2009, complete the details below and fax this page by 31 March 2009 to the Fund Administrator on (03) 9640 0787.

Combined Fund S&P/ASX300 Index Competition

Name: _____

Employer: _____

Phone: _____

My estimate of the S&P/ASX 300 Index as at 30 April 2009 is:

The winner will receive a voucher for "Dinner for Two" at a 5 star Restaurant of their choice and a one-year subscription to the Australian Financial Review's "Smart Investor" magazine.

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