

SUPERupdate

SUMMER 2011

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At a glance

In this edition of *SuperUpdate*, we take a closer look at investment markets to see how they are performing in the current global economic climate. We also provide an update on the Federal Government's latest superannuation reform, 'Stronger Super', and what this means for your super into the future.

In addition, we are pleased to announce some new functionality on our website, including access to your Member Statements anywhere, anytime! We remind all of our members that, in keeping with our 'Always for you' philosophy, we also have dedicated Financial Planners to assist with all your financial planning needs...just call us!

An evolving superannuation system...Stronger Super

On 29 May 2009, the Federal Government commissioned the Super System Review (the Review), under the chairmanship of Jeremy Cooper, the former deputy chair of the Australian Securities and Investment Commission. The Review was tasked with developing recommendations to sharpen the superannuation system's focus on operating in the best interests of members. The Review's final report was handed to the Government on 30 June 2010.

Stronger Super represents the Government's response to the Review's recommendations after a period of industry consultation. The reforms to be adopted will make our superannuation system stronger and more efficient, and will help to maximise retirement income for members. At the same time, the reforms will make the system easier to use for all participants, including employers.

Specifically, the Government will legislate to:

- require most super funds to offer a new simple, low cost default superannuation product called 'MySuper';
- make the processing of everyday transactions easier, cheaper and faster, through the 'SuperStream' package of measures; and
- strengthen the governance, integrity and regulatory settings of the superannuation system, including those in relation to self-managed superannuation funds.

Legislation to implement the stronger super reforms will be introduced in stages over several months.

We will continue to keep you up to date with more information in upcoming newsletters.



Did you know?

Your latest Member Statements can now be accessed anywhere, anytime on our website.

Simply go to www.mercysuper.com.au, click on the member online section to keep up to date with all your member information.

Always for you

Investment Update

Investment markets continue to exhibit increased levels of risk in response to the uncertain outlook for the global economy.

During the September quarter, global share markets witnessed some of the steepest quarterly share price declines since 2008. Much of the uncertainty is focussed on European Government debt, with Spain, Italy and Portugal joining Greece and Ireland as countries perceived to be at risk of defaulting on their governments' borrowings.

Consistent with previous months, global bond yields declined in a number of core bond markets (the U.S., U.K., Japan and Germany in particular) and bond prices rose as investors continued to avoid riskier markets. There were few places to hide during the September quarter with the price of gold, traditionally considered a defensive asset class, also declining significantly.

Global share markets rebounded strongly through October as investor sentiment improved for riskier asset classes. International share markets rose 8.6% in local currency terms (e.g. U.S. market in USD) with the local market climbing 7.2% for the month. Just as this reversal was mainly a result of European leaders developing a plan to solve ongoing

government debt woes, further concerns in November have resulted in markets falling again. Italy is the source of the latest stress with funding levels having now reached unsustainable levels.

Europe is in a debt crisis which is rapidly coming to a head. The issues in Italy cannot be dealt with in the same way as the smaller European nations because Italy is a large economy with a very large debt market. The markets will force a turning point or some form of path to resolution one way or the other in the next few months. There are two starkly different scenarios which could occur from here.

We sat down with our specialist investment adviser, Frontier Investment Consulting to discuss the markets in more detail.

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Q. Can you please explain the reasons for recent disappointing Investment returns.

All Member Investment Choice (MIC) Options, except the Cash Option include some level of exposure to both Australian and international share markets. The performance of these markets has been the primary driver of poor investment returns during the past quarter.

Share market prices can change significantly over the short term (referred to as return volatility) during periods when there is a high level of uncertainty in the underlying economy. This is what is currently happening.

This increased uncertainty is the result of a number of complex factors but does have a lot to do with the concerns about whether European governments will be able to repay their debts.

It is important to note that while share markets have performed poorly, other asset classes have performed relatively well during this period. This is what would be expected from a diversified portfolio.

Q. What is the European debt crisis?

The European debt crisis involves a number of European national governments that are struggling to repay loans provided predominately by banks and other large financial institutions. Financial markets have reacted strongly to concerns about the level of risk these large financial institutions are exposed to in the event of a government loan default and the potential economic fallout this could cause. Government loans are used, along with tax revenue, to pay for everyday public services and infrastructure in the community costs such as roads, police, schools, hospitals etc.

In order to repay the loans, these governments are seeking ways to reduce public expenditure and/or increase taxes. This is naturally causing considerable public and political distress within those countries. To make matters worse, it is happening at a time when many of these same countries are experiencing high levels of unemployment on the back of the global financial crisis in 2008.

Q. What does the European debt crisis mean for Mercy Super member balances?

Since the European economy makes up approximately a quarter of global Gross Domestic Product (a key measure of economic activity), its health is important to the overall world economy.

As part of its diversified portfolio, Mercy Super has a number of investments that are exposed to international investment market performance. Additionally, the performance of the Australian share market is heavily influenced by major international economies and international share markets.

We would expect that until the European debt crisis is resolved, or until a credible rescue plan is put in place, there will continue to be increased short term volatility in financial markets. This volatility will impact on the balances of Mercy Super members. Superannuation is a long-term investment, and members with a patient long-term approach can actually benefit from short-term dislocation in financial markets.

Q. Can you please explain the reference to heightened market volatility and what it means for members' super?

We expect financial markets will go through periods of increased volatility whenever there is uncertainty around the path of economic activity. During such times, it is important to have a well diversified portfolio that includes Australian and international assets. These should be spread across both growth-orientated and defensively-orientated asset classes.

Well-diversified portfolios have demonstrated their value over time by delivering solid returns over a market cycle. A mix between listed and unlisted assets is also important at times like these. Periods of heightened market volatility offer opportunities to patient, long term investors, such as Mercy Super.



“...members with a patient long-term approach can actually benefit from short-term dislocation in financial markets.”

Q. How does Frontier view the risks facing Mercy Super's investment portfolio?

It is difficult to quantify the risks facing the global economy and consequently Mercy Super's investment portfolio. In addition to the debt crisis in Europe, the United States and Japan have also been experiencing a tough economic period over the past year. In the U.S., unemployment remains high and the government is also struggling with a clear plan on how to deal with high levels of debt.

European politicians could undertake sufficient structural reforms and provide enough

funding back-stops to satisfy markets with the result that the price for debt being paid by Spain, Italy and even France reduce materially. The signs are that governments in Greece, Italy, Spain and even France are willing to do what they can to effect these changes, with bi-partisan political changes occurring in Greece and Italy recently and further austerity measures introduced in France. The European Central Bank can also step in to support these actions.

The other less likely, but still possible scenario that could occur is that the problem becomes too big to solve politically and even economically. This is a genuine possibility due to the size of the markets in Italy and the impact on growth with forecasts for Europe already having been downgraded to very low growth for 2012. Under this scenario, which we think is a sizeable risk but not the most likely outcome, the European economic zone is likely to break up with significant defaults to occur, leading to a global recession. Equity markets could fall significantly further (most markets are still 30% above their 2009 lows). We reiterate that we do not think that it is the most likely outcome as in short the political and economic stakes are just too high for the countries concerned.

While current market risks are very real, in most instances we believe that on balance this risk is already being reflected in current financial market valuations. In some instances, we believe financial markets have been too pessimistic and that some markets have been sold down too far. This provides opportunities for a strong rebound in returns over the medium term that patient investors can take advantage of.

Q. What are your views on the outlook for the global economy?

Despite the current risks and uncertainties, especially in Europe, a range of economic fundamental indicators have improved, or at the very least stabilised, during the September quarter. Global macroeconomic activity is at a significantly higher level than was the case in early 2009 during the Global Financial Crisis. While the balance sheets of many governments are stretched, corporations generally have strong balance sheets as they have continued to reduce their own levels of debt.

“Frontier remains cautiously optimistic about the global economic outlook, particularly over the medium to long term.”

The risks caused by the European government debt crisis are very real; however, it can be resolved but requires political will to take all the steps needed to manage the situation, though this is bound to take some time.

Overall, Frontier remains cautiously optimistic about the global economic outlook, particularly over the medium to long term.

Prepared by:
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The information provided above is of a general nature only and does not take into account the financial situation, objectives or needs of any individual. Accordingly, before acting on the information, the appropriateness of advice should be considered in the context of the individual's objectives, financial situation and needs.

Moving to the Queensland Children's Hospital?

Your Mercy Super membership doesn't need to change...

The new Queensland Children's Hospital (QCH) is scheduled to open on the Mater Health Services Campus in South Brisbane during 2014.

This is an exciting evolution for the Mater, but also perhaps a time of some uncertainty for staff who will transition across to the new hospital.

One thing we can provide some certainty about is that if you are a current Mater Health Services employee, and you move across to the QCH, you can continue to be a member of Mercy Super and have your ongoing superannuation contributions paid into your Mercy Super account.

This is great news for our members and it means that you will continue to have access to the same insurance benefits, investment choices, information seminars and the personalised service from the Mercy Super Team you have come to enjoy.

Over the coming months, keep a look out for more information from the Mercy Super Team about your super.



How do you want to live in your retirement?

The Association of Superannuation Funds of Australia's (ASFA) Retirement Standard sets a benchmark for the annual expenditure that would be required by Australians to fund either a comfortable or modest standard of living in their post-work years. The Standard is updated quarterly to reflect inflation, and provides detailed budgets that indicate how much singles and couples would need to spend to support their chosen lifestyle.

Budgets for various households and living standards

The most recent national figures released by ASFA show that in September 2011, on average, a couple looking to achieve a comfortable retirement need to spend \$55,316 a year, while those seeking a 'modest' retirement lifestyle need to spend \$31,767 a year.

Modest vs. Comfortable retirement lifestyle

Modest retirement lifestyle

This is considered to be in a better position than the Age Pension, but still only able to afford fairly basic activities.

Comfortable retirement lifestyle

This means being able to be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of such items as household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel.

Check what budget you will need in retirement with the ASFA Retirement Standard Calculator. You can access the calculator at - www.mercysuper.com.au/education-centre/helpful-calculators-and-links.aspx

Sourced: ASFA Retirement Standards
October 2011

Is NOW the time for financial advice?

Cheryl Haines and Adam Stewart are Industry Fund Financial Planning representatives for all Mercy Super members, and can assist you with a **range of advice in financial related matters including:**

- Retirement planning
- Transition to retirement strategies to build super after age 55
- Salary packaging
- Superannuation
- Investing outside super and debt reduction
- Centrelink benefits, tax strategies and redundancy.

Good advice when you need it most is the cornerstone of your future financial security. Cheryl and Adam can work with you to help reach your financial goals. To make an appointment with Mercy Super's very own financial planners, call x1790 for Salary Packaging (SOMPak) appointments and for more comprehensive financial advice call 1300 368 891 or 07 3163 8867.



**Industry Fund
Financial Planning**

Industry Fund Financial Planning (IFFP) is a division of Industry Fund Services Pty Ltd (IFS).
ABN 54 007 016 195 AFSL No. 232514.

IFS is a wholly owned subsidiary of Industry Super Holdings Pty Ltd (ISH). ISH is owned by a number of leading industry and corporate funds funds. For a list of shareholders go to ifs.net.au IFFP has its own conditions of service and fee structure.



Merry Christmas from Mercy Super



Mercy Super would like to take this opportunity to thank all of our members and employer clients for your support and to wish a very happy, safe and holy Christmas to you and your families. We look forward to sharing a prosperous 2012 together with you all.

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