

Market update

First quarter (July-September) 2016

Still riding the ups and downs

The market volatility of 2015/16 continues into the new financial year.

The 2016/17 financial year got off to a bumper start, with share markets around the world rallying in July. The markets quickly digested the June 24 Brexit news and largely took the results in their stride. That doesn't mean that the Brexit issue is resolved, however, but rather that share markets had largely moved on to the next piece of news by July.

As has often been the case since the Global Financial Crisis, central banks around the world stepped in early in the quarter to stimulate markets. The Reserve Bank of Australia cut rates to a record low (for this country) of 1.5% on 3 August, while the Bank of England cut interest rates on 4 August.

However, by the end of September, the effect of these short-term 'sugar hits' had largely dissipated. Share markets have given back a large part of these earlier gains, but have generally still ended the September quarter higher than where they started.

The negative-interest-rate phenomenon

Negative interest rates and bond yields have been a phenomenon in many countries for a few quarters now (particularly in Europe and Japan). There's growing evidence that negative interest rates may actually work against the financial system. For instance, it's difficult for banks to pass on negative interest rates to their customers. This in turn affects bank profitability, which is an increasing problem, particularly in Europe. There's also the risk that currently low bond yields will rise, leading to their prices falling.

Indeed, the latter part of the quarter has been dominated by a fall in bond prices. This has coincided with falling share markets, which is not what markets have become used to (bonds traditionally rise in value when share markets fall).

Other sectors, such as commercial property and infrastructure, continue to benefit from these falling interest rates. As such, we continue to see high demand for large assets that provide a stable yield, as seen by the Victorian government's sale of the Port of Melbourne to Australian and global institutional investors in September for a much higher-than-expected price tag of \$9.7 billion.

So what does this mean for you?

We'd expect to see returns in the coming years to be lower than we've become used to recently, and with more volatility. With interest rates at historic lows (or even in the negative), we should expect that bonds may have negative months and perhaps even a negative year. However, over the long term, they remain an important building block for our pre-mixed investment options.

Although we can't predict what the markets will do, we can adjust our investment approach to help protect against volatility and smooth out the bumps. While shares, bonds, property and cash are still likely to be the major components of our pre-mixed options, we'll continue to look for other investments that can diversify away from the risks posed in share and bond markets.

Your returns this quarter

This table shows how your investment has performed for the financial year to date.

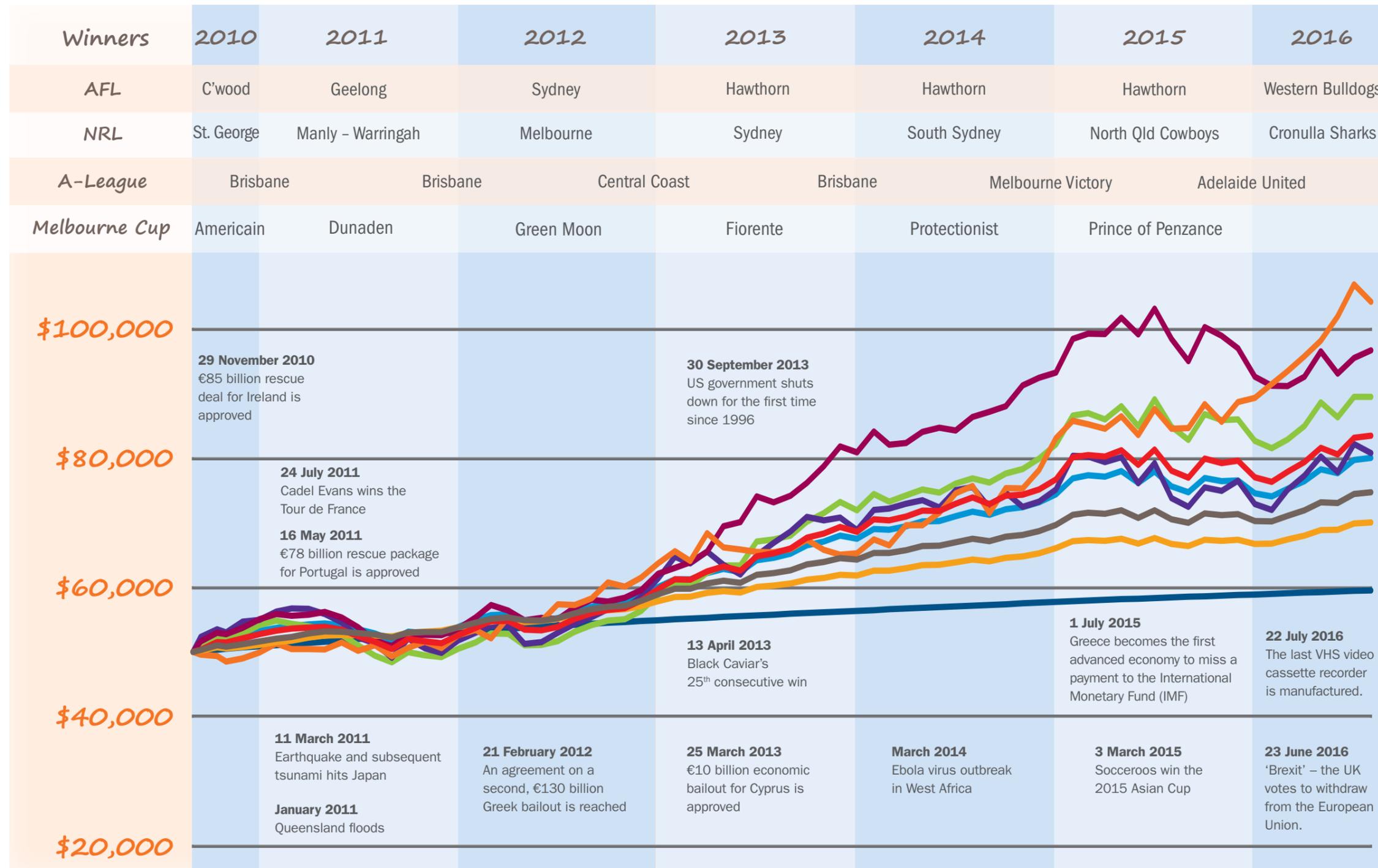
To discuss market conditions or your own financial situation, please call one of our financial advisers on **1300 130 780**.

*For LUCRF Pensions, this investment option is called Balanced.
Note: This table details our final rates as at 19 September 2016.

For the latest rates, please visit lucrf.com.au or call **1300 130 780**.
Past performance is not a reliable indicator of future investment returns.

Investment Option	Super rates	Pension rates
	01/07/2016 - 19/09/2016	01/07/2016 - 19/09/2016
MySuper Balanced*	2.08%	2.33%
Conservative	1.06%	1.21%
Moderate	1.52%	1.71%
Targeted Return	1.61%	1.83%
High Growth	2.62%	2.94%
Cash	0.37%	0.44%
Property	-3.97%	-4.44%
Indexed Shares	2.10%	2.31%
Australian Shares	2.05%	2.32%
International Shares	2.75%	3.06%

What is \$50,000 invested in super on 1 September 2010 worth now?



- \$104,191**
Property
- \$96,655**
International Shares
- \$89,503**
Indexed Shares
- \$83,492**
High Growth
- \$80,782**
Australian Shares
- \$80,020**
MySuper Balanced
- \$74,696**
Moderate
- \$70,022**
Conservative
- \$59,531**
Cash

This graph shows the upward trend of each investment option invested over time. Even though there are peaks and troughs, these are evened out over the long term.

Please note: not all our investment options are shown in the graph. Past performance is not a reliable indicator of future returns.

Which investment option is right for you?

Our fully qualified in-house financial advisers can help you decide. Call us on **1300 130 780** or email mypartner@lucrf.com.au.

Want to save tax and grow your retirement savings faster?

If you're eligible to start a LUCRF Pension account, you could save on tax and increase your retirement savings. How? Because of the difference in the way super and pension accounts are taxed.

Tax on investment earnings in a LUCRF Super account

Investment earnings on the balance in your LUCRF Super account are taxed at a maximum rate of 15%. For example, as displayed in the chart below, an account balance of \$50,000 in a LUCRF Super (MySuper Balanced) account at 1 September 2010 would now be worth \$80,020 after tax and expenses.

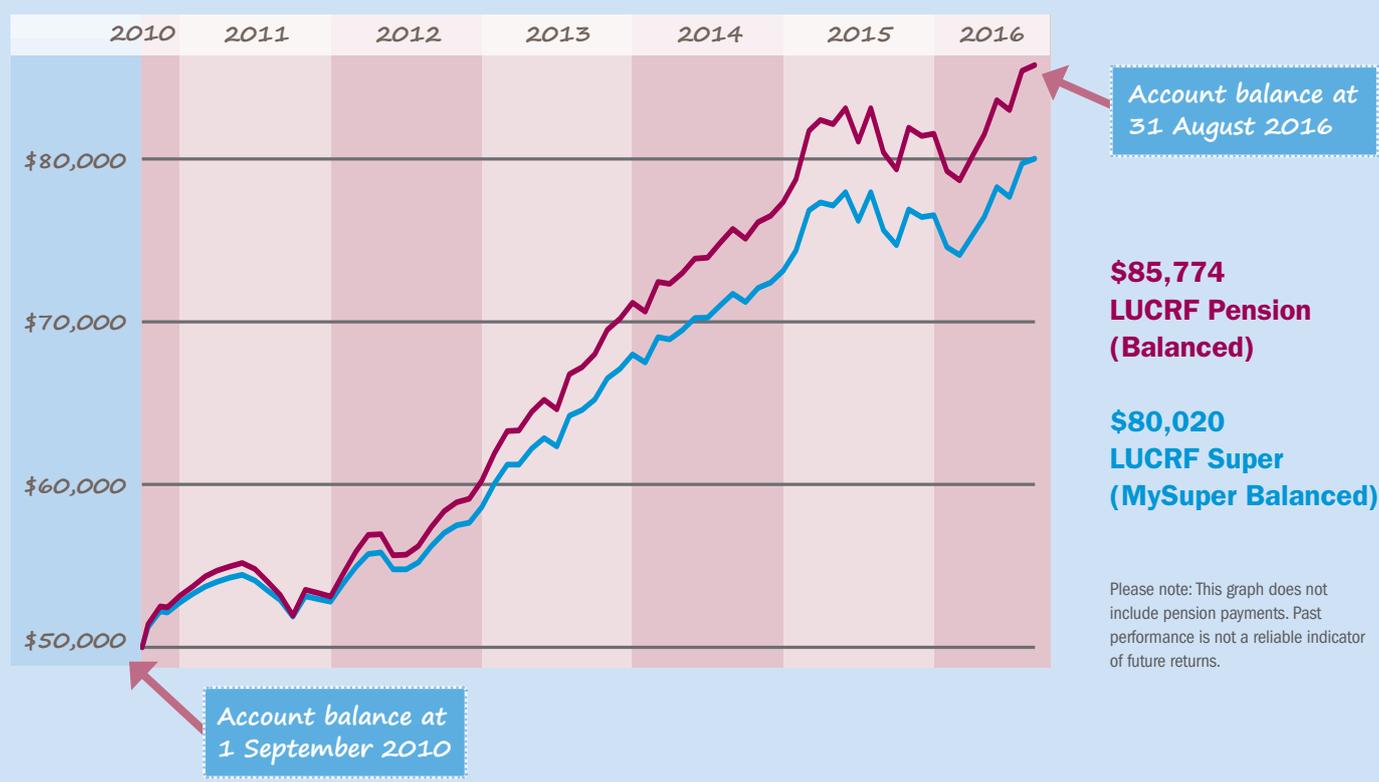
Tax on investment earnings in a LUCRF Pension account

In comparison, investment earnings on your balance in a LUCRF Pension account do not attract any tax, regardless of your age.

So, if that same \$50,000 was instead placed in a LUCRF Pension (Balanced) account at 1 September 2010, it would now be worth \$85,774.

Talk to one of our fully qualified financial advisers on **1300 130 780** to find out if a LUCRF Pension account is right for you.

Investment growth comparison between LUCRF Super and LUCRF Pension accounts



Contact us

1300 130 780

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