

Market update

Fourth Quarter (April – June) 2016

Our sights are set on the long-term

Although ‘Brexit’ happened in the final throes of the financial year (24 June), Britain’s decision to leave the EU dominated the quarter. Surprisingly, while the event caused political upheaval and short-term share market volatility, markets rebounded quickly with the UK share market actually finishing 4% higher at the end of June than at the beginning.

How did we respond?

While Brexit received a lot of media coverage in Australia, it’s important to note that events occurring in the UK impact our economy a lot less than those in the US or China. With this in mind, we chose to take advantage of the volatile environment. We selectively increased our international investment portfolio by purchasing international shares at lower prices.

All things being equal, buying shares at a lower price means that we can provide you with increased future long-term returns. It’s vital to note that this purchasing principle applies only to long-term returns as predicting share market performance in any given year is difficult.

What happens next?

The path of future interest rates is one of the biggest factors likely to affect future investment returns and the key driver of the expected future volatility. It is unlikely that the US Federal Reserve will be in a hurry to raise the interest rate given the uncertainty currently affecting the global economy.

As we enter the first quarter of 2016/17, we expect that the focus of investors will turn to company earnings. Due to a number of factors, market expectations are for decreased earnings. These factors include low commodity prices (affecting the profits of energy and mining companies), moderate economic growth and a rising US dollar.

In summary

The long-term consequences of Brexit remain to be seen and it’s likely that a volatile financial market will prevail. Regardless, our response will be the same. We will make the most of the uncertainty. We will harvest opportunities borne from the market’s over-reaction to the situation and continue to ensure that our investment portfolio is suitably positioned to achieve its long-term objectives.

Latest returns

The table below shows how your investment has performed for the quarter and financial year.

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

Investment Option	Super rates		Pension rates	
	4 th Quarter (1 Apr - 30 Jun 2016)	FYTD (1 Jul 2015 - 30 Jun 2016)	4 th Quarter (1 Apr - 30 Jun 2016)	FYTD (1 Jul 2015 - 30 Jun 2016)
MySuper Balanced*	3.24%	1.94%	3.65%	2.40%
Conservative	2.24%	3.19%	2.58%	3.79%
Moderate	2.79%	3.25%	3.21%	3.94%
Targeted Return	4.43%	4.97%	4.97%	5.94%
High Growth	3.42%	2.02%	3.89%	2.52%
Cash	0.45%	1.91%	0.54%	2.28%
Property	9.06%	21.96%	9.52%	23.70%
Indexed Shares	4.14%	1.65%	4.62%	1.89%
Australian Shares	3.63%	2.26%	4.02%	2.80%
International Shares	2.12%	-6.08%	2.34%	-6.85%

*The default for our pension product is the Balanced option. Past performance is not a reliable indicator of future performance.

Brexit explained

There's been a lot of news recently about 'Brexit' and the European Union (EU). Here's what it all means.

What is the EU?

The EU is as an economic and political collective of 28 European countries (with 500 million people). It was started to foster co-operation between countries (member states). Although each country remains independent, the purpose of the EU is to allow free movement of goods, services and people between member states.

What is Brexit?

The term 'Brexit' is an abbreviation for British exit from the EU. A referendum was held on 23 June 2016, where Britons voted to leave the EU.

The result of this referendum was unexpected and has caused uncertainty in global economies, including Australia. Share markets were generally expecting a 'remain' vote and shares had performed well in the lead-up to the vote, but subsequently fell on Friday night (our time) after the result was announced. The Pound Sterling fell heavily on Friday night against most major currencies.

The unexpected result is likely to lead to some continued short-term volatility. However, the UK is not expected to leave the EU until 2018.

What does this mean for Australia?

While the Australian share market fell 3% on Friday 24 June on the news of Britain's vote to leave the EU, the ongoing effect for Australia is likely to be short-term volatility in the share market, but little direct long-term impact on our economy.

While there has been a lot of speculation in the media, Europe is one of Australia's smaller trading partners (e.g. compared to Asia), and the UK smaller still.

What does this mean for your super balance and returns?

Our future long-term outlook is likely to remain stable, despite some short-term uncertainty and fluctuations. To put it into perspective, LUCRF Super's exposure to the UK is only about 2.2% of the MySuper Balanced option* and our exposure to the Pound Sterling is only 1.6%. Whilst returns may be lower this year, it's important to remember that super is a long-term investment and there will be positives and negatives along the way.

What is LUCRF Super doing?

As with any long-term investment, yearly returns will vary from year to year and we need to expect returns to go up and down. For example, for the MySuper Balanced option*, we predict a positive return in 15 years out of every 20 years. This is the cyclical nature of investing. Staying optimistic during the years when our returns are lower than other years helps us to focus on moving forward and adjusting our investments to strengthen returns for members.

We've been focusing on continuing to diversify MySuper Balanced* in recent years with increasing investments in areas like unlisted property and infrastructure, which are less exposed to the short-term volatility of share markets.

Our goal is, as always, to deliver value for members and maximise their retirement savings.

Want to know more?

If you have any questions or want to discuss your personal financial situation, please call us on **1300 130 780**.

*MySuper Balanced option is called Balanced option for pension members.

Contact us

1300 130 780
lucrf.com.au

