

Markets and the Fund

The global financial crisis continued to have a negative influence on the world's investment markets throughout the year to 30 June 2009. Most members of accumulation super funds, as investors in global markets, saw the ongoing crisis play out as negative returns and diminished account balances.

Despite the challenging market conditions, however, most of UniSuper's investment options fared better than their respective benchmarks over the year. UniSuper also performed well relative to its peers.

How the Fund performed

The following information is for the reporting period 1 July 2008 to 30 June 2009.

Negative results on global sharemarkets (and for growth assets more broadly), contributed to negative returns for many of UniSuper's investment options. The Cash and Australian Fixed Interest options, which are not invested in growth assets, posted the only positive returns for the year.

Despite the challenging market conditions, most of UniSuper's investment options fared better than their respective benchmarks. This outperformance was aided by strong relative results in UniSuper's Australian shares, alternative investments and property portfolios.

UniSuper also performed well relative to its peers over the year. According to SuperRatings – one of Australia's largest ratings and research companies – UniSuper's High Growth, Growth, Balanced, Conservative Balanced and Capital Stable investment options all achieved top quartile performance for 2008/09. In addition, UniSuper's flagship investment option – the Balanced option – was ranked 13th out of 113 comparable super funds in Australia for the year.

Over the longer term, the Balanced option has posted sound results. Returning 5.3% p.a. over the 5-year period to 30 June 2009, the option outperformed its benchmark and delivered first quartile performance in comparison to its peers, according to SuperRatings.

Indeed, UniSuper's investment options have provided positive long-term returns, with most returning an average of around 5% p.a. for the last five-year period, and most outperforming both their benchmark and their peers.

Investment market performance

For the second year in a row, economies and investment markets around the world endured the continuing impact of the global financial crisis. But while few would describe the year as good, the news wasn't all bad, especially here in Australia.

As at 30 June 2009, the local economy had managed to avoid a recession (which is technically defined as two consecutive quarters of negative gross domestic product (GDP) growth). Indeed, the Australian economy weathered the global downturn better than most developed economies.

The Australian sharemarket, however, was not immune from losses – it fell by 20.3% over the course of the year. The healthcare sector posted the sole positive return – up 0.4%. Materials and energy were major drivers of the drop in Australian shares, falling 33.7% and 23% respectively. Small companies fell 28.6%.

International shares were also weaker, falling 28.4% on a currency hedged basis. Taking into account the decreased value of the Australian dollar against major currencies over 2008/09, international markets fell 16.2% on an unhedged basis. Emerging markets recorded an unhedged fall of 14.6%.

In other markets, domestic cash rates fell to 3.0% p.a. over the course of the year. Despite substantial volatility during the year, Australian fixed interest returns were relatively strong, returning 10.8% overall, while international bonds returned 10% on a currency hedged basis.

Property markets experienced significant weakness over the year. Unlisted property fell 12.4%, while listed property fell by 42.1% (largely on continuing concerns around refinancing risks, discounted equity raisings, distribution cuts, and declining property valuations).

Market outlook

Around the world, many positive steps have been taken to turn the downturn around. Governments have launched substantial fiscal stimulus packages (for example, the US recently introduced a US\$787 billion plan to help boost the economy), and reserve banks have cut interest rates in a bid to stimulate activity (at present, the UK, the US and Japan all have official interest rates close to zero).

Encouragingly, some of these measures seem to be having the desired effect. International share markets, as well as our own local share market, posted positive returns just prior to the end of the financial year. At this early stage, however, these positive results should be viewed with restraint. The road ahead is likely to remain fairly uncertain, at least for the foreseeable future.