Super News
Update

www.nestlesuper.com.au
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When markets get messy

In this edition of Super News we're focusing on recent investment market performance. Our message to you at this time is simple: stay the course.

What's happening?

Investment market performance was weak in the early weeks of 2016. Global equity and credit markets are currently very volatile, which is unsettling when you can see the sharp ups and downs impact the value of your retirement savings.

What is Nestlé Super doing to protect your super?

The Fund's investment strategy is set by your Trustee and managed by Russell Investments, a global multi-asset investment specialist.

Nestlé Super's investment strategy is built around a long-term timeframe and a strategic allocation of assets diversified across asset classes including shares, property, fixed interest and cash. Russell Investments' investment strategy is also diversified across multiple investment managers, who are selected on the basis of their specialist skills, experience and capabilities. Spreading investments across sectors, asset classes and investment managers helps to protect your savings from volatile conditions.

Across the globe, the Russell Investments team keep a close eye on daily market activity to ensure your investment portfolios achieve their long-term investment objectives. As conditions change, you can be assured that Russell Investments are adjusting strategies at the asset and investment manager level to both protect returns and take advantage of any resulting recovery.

What should you do?

Resist the urge to change your investment strategy unless this reflects your long term goals.

It's totally normal to feel worried when investment markets get messy, but if you 'cash out' when markets are down, you are choosing to sell low - the opposite of the common goal of investors to buy low and sell high.

Trying to time the markets and responding to market movements could leave you considerably worse off, even if retirement is just around the corner. Find out why over the page.

IN BRIEF

Don't panic. Avoid knee-jerk reactions that could be detrimental to your financial future. It's normal for financial markets to move in cycles.

Think long term. Short term market fluctuations are often just 'noise' based on the emotions of investors rather than true value.

Review your strategy. It's wise to periodically re-visit your investment strategy, particularly if something in your life has changed or you're nearing retirement.

If you're worried, talk to an expert. Every investment has risks, and financial advice can help you consider what's at stake, and how to take advantage of every opportunity. Turn to page 5 for more information.

Worried about volatility?

Here's what you need to know.

It's normal to feel rattled

Fear and worry are natural reactions when markets are rising one day and falling the next.

Investment markets are driven by emotion. Negative or 'bearish' headlines erode investor confidence, which in turn reinforces selling pressure and generates more bad news. And on it can go in a downward spiral. Even the most seasoned investors get rattled by volatile conditions and can make knee-jerk decisions when their investments aren't performing.

All investors want to achieve high, risk-free returns. But investing requires a trade-off between risk and return. To grow the value of our investments over time, we generally need to adopt a strategy that is riskier than we'd prefer - which is why we react so strongly to seeing the value of our savings rising and falling day to day and week to week.

'Cashing out' is a risky move

Volatile investment market conditions trigger one of our most primeval protective instincts – we can't fight the performance of investments, so we often adopt a flight strategy by switching our investment strategy. That's why investor behaviour in volatile times is often termed a 'flight to cash'.

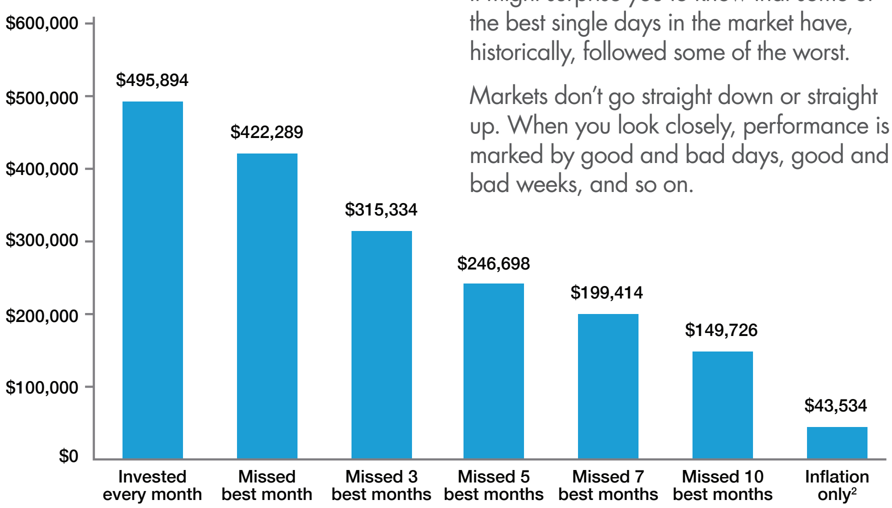
But switching to a less aggressive investment strategy (e.g. bonds and cash) during periods of volatility is rarely in investors' best interests, and it may actually see you worse off at retirement.

Yes, switching to a lower-risk investment strategy can protect your savings from future investment losses. But it's also likely to cause you to lock in any losses up to that point. It's unlikely that you'll be able to pick the right time to switch back to a higher-risk strategy when conditions go back to normal. By the time you hear good news in mainstream media, any rebound will be well underway. This is because the news reports on what has already happened, rather than what is going to happen!

Timing… or time in?

In volatile conditions, it's tempting to switch your strategy with the hope you'll protect your savings by limiting investment risk.

Unfortunately, this actually increases the risk that you'll miss some of the best days in the market. And that can be very costly.



[1] Chart shows the value of a one-off investment of $10,000 made on 1 January 1980, measured through to 31 December 2015 using ASX All Ordinaries Accumulation Index returns.

[2] Value of $10,000 in January 1980 in today's dollars. Inflation measured by Australia All Groups Consumer Price Index. Source: ABS Cat No 6401.0.

This chart shows possible outcomes of investing $10,000 in January 1980 until January 2015[1], and what would have happened to the value of this investment if the best performance months over this period were missed.

Some of the best months in the market follow the worst

It might surprise you to know that some of the best single days in the market have, historically, followed some of the worst.

Markets don't go straight down or straight up. When you look closely, performance is marked by good and bad days, good and bad weeks, and so on.

During periods of volatility, the magnitude of up-moves are just as big as the magnitude of down-moves.

Missing the good days does so much damage because missed gains aren't able to compound over the years or decades your money will be invested until retirement.

Missing just the single best month in the Australian shares market over the last 35 years could have cost investors approximately 15% of their total potential return.

If you 'cash out' when markets are down, you are choosing to 'sell low' - the opposite of the common goal of investors to 'buy low and sell high'.

While volatility makes us uncomfortable, periods of unpredictable performance are perfectly predictable – from time to time, investment performance will be volatile.

An investment strategy based on your long-term investment goals will help you avoid the buy-high, sell-low trap that sees most investors invest at the point of maximum risk, and shy away at the point of maximum opportunity.

Performance of your Fund's investment options

Investment returns – Pension categories

Investment option	3 months to 31 Dec 2015	1 year to 31 Dec 2015 (p.a.)	3 years to 31 Dec 2015 (p.a.)	5 years to 31 Dec 2015 (p.a.)
Cash[1]	0.51%	1.89%	2.18%	n/a
Conservative	1.02%	2.94%	6.40%	6.88%
Growth	2.63%	4.57%	11.24%	9.16%
High Growth	4.17%	6.87%	14.72%	10.30%

Please note: Pension categories include Account Based Pension and Transition to Retirement Pension members.

Returns are net of investment fees, tax and 0.20% administration fees. In accordance with Trustee policy a deduction of 0.13% p.a. has been made from the returns from August 2013 to fund the operational risk reserve.

Please note past investment performance is not indicative of future performance.

[1] The Nestlé Cash option was introduced on 1 July 2012.

Investment returns – Super categories

Investment option	3 months to 31 Dec 2015	1 year to 31 Dec 2015 (p.a.)	3 years to 31 Dec 2015 (p.a.)	5 years to 31 Dec 2015 (p.a.)
Cash[1]	0.49%	1.58%	1.81%	n/a
Conservative	0.97%	3.01%	5.44%	5.80%
Growth	3.09%	4.94%	9.88%	7.86%
High Growth	4.36%	5.66%	12.58%	8.70%

Please note: Super categories include Defined Benefit, Insured Accumulation, Temporary, Retained and Spouse members.

Returns are net of investment fees, tax and 0.20% administration fees. In accordance with Trustee policy a deduction of 0.13% p.a. has been made from the returns from August 2013 to fund the operational risk reserve.

Please note past investment performance is not indicative of future performance.

[1] The Nestlé Cash option was introduced on 1 July 2012.

Investment market commentary to 30 December 2015

Highlights this quarter

Central bank policy action – both global and domestic – had a significant impact on the local market's performance over the quarter. Stocks rallied particularly strongly toward the end of the quarter when the Fed finally did raise interest rates; investors choosing to interpret the bank's decision as a sign that the US economy is strong enough to withstand higher borrowing costs. Investors were also comforted by the Fed's promise that any subsequent rate hikes will be gradual. Closer to home, the Reserve Bank of Australia provided an upbeat assessment of the local economy in keeping domestic rates unchanged throughout the period. Sentiment was further boosted by some encouraging domestic economic data, a strong showing by the 'Big Four' banks and further Chinese stimulus.

What's ahead

Despite global market volatility and larger than expected sell-offs in equity markets in the first two months of 2016, Russell Investments believe markets have over-reacted and should rebound when sentiment improves. However, the recent global market volatility is a reminder to investors that with stretched valuations and questionable growth, market risks remain heightened with global markets very jittery. Especially in periods of market volatility, it is important to remember that markets rise and fall, particularly over the short term. If you're a long-term investor, it's best to avoid kneejerk reactions at the risk of 'locking in your losses' - because you don't truly feel the pain of market declines until you sell investments at a low.

Asset classes at a glance

Asset class	Summary	Return
Australian shares	Australian shares had a strong final quarter with the market up 6.5%, reversing losses from the previous quarter. Despite sharp declines in commodity prices, investor sentiment was buoyed by both domestic and global central bank policy. The Federal Reserve's decision to finally raise interest rates was interpreted by investors as a sign that the US economy is strong enough to withstand higher borrowing costs. Domestically, the Reserve Bank of Australia provided an upbeat assessment of the local economy in keeping domestic rates unchanged throughout the period.	6.5%
International shares	Global share markets rose in the fourth quarter, with hedged international equity outperforming its unhedged counterpart as the Australian dollar declined. Central bank policy action had a significant impact on international equity too. Investors were comforted by the Fed's promise that any subsequent rate hikes will be gradual. Sentiment was further boosted by some encouraging US and European earnings results and news of further Chinese stimulus.	Unhedged 1.7% Hedged 6.4%
Global listed property	The global listed property also performed strongly during the quarter, only marginally underperforming the broader equity market over the period. Expectations the US economy is strong enough to withstand higher interest rates, the listed property sector's traditionally defensive characteristics in the face of ongoing market volatility and still-strong property fundamentals generally were among key drivers of market returns.	5.1%
International bonds	Global bonds made modest gains in the fourth quarter. Longer-term government bond yields were mixed as conflicting central bank monetary policies saw US bond yields rise while their European counterparts remained relatively flat. However, prices across all regions were broadly supported by lingering global growth concerns.	0.6%
Australian bonds	Longer-term bond yields rose (prices fell) throughout the period amid US rate hike expectations (and subsequent move toward the end of the quarter), a series of better-than-expected domestic economic data and speculation local interest rates may have bottomed for this cycle. Helping to support bond prices were further declines in key commodity prices and lingering Chinese and global growth concerns.	-0.3%
Cash	The Reserve Bank of Australia (RBA) left the official cash rate unchanged at a historically low 2.00% throughout the period as officials continued to monitor the impact of earlier rate cuts. The bank noted that "the prospects for an improvement in economic conditions had firmed a little over recent months and that leaving the cash rate unchanged was appropriate."	0.6%

Caution: curves ahead

Investing in 2016 might feel a bit disarming following four strong years for Australian and global share returns between 2009 and 2014 , advise Russell Investments, Nestle Super's investment manager.

Despite global market volatility and the larger than expected sell-off in global equity markets, Russell Investments are inclined to focus on underlying economic fundamentals, which for now in their view, remain intact. Russell Investment believe that markets have over-reacted and should rebound when sentiment improves.

While some investments are likely to face challenges in 2016, many investment experts believe it's not all 'doom and gloom'.

Emerging market shares are currently 'cheap' compared to historical norms, also impacted by lower currency values in 2015. On the bright side, governments in several emerging countries (such as India) are working to stimulate their economies and support growth. Despite global market volatility and the large sell-off in the Chinese market in early 2016, Russell Investment believe team continues to focus on China's underlying economic fundamentals which, in their view, remain intact in the longer term.

The world is large and investment opportunities are diverse - from bonds and shares from all over the globe to currencies, property, listed infrastructure investments (e.g. investing in utilities companies, airports, bridges) and more.

While some investments may struggle in 2016, there are still some good opportunities out there.

The great part about superannuation? A team of experts do the hard work for you. They've been preparing our super portfolios to take advantage of a world of lower returns and higher volatility.

Your investment options at a glance

The Nestlé Cash option is suitable for investors seeking cash-like returns, who have a short investment horizon. Minimum investment timeframe: 12 months.

The Nestlé Conservative option is suitable for investors who do not have a long investment horizon and whose most important consideration is having a low chance of a negative return over this horizon. Minimum investment timeframe: at least 3 years.

The Nestlé Growth option is suitable for investors who are seeking to build wealth over the medium to long term and are willing to accept the possibility of negative returns over the shorter term. Minimum investment timeframe: at least 5 years.

The Nestlé High Growth option is suitable for investors who are seeking to build wealth over the long term and are willing to accept the possibility of negative returns over the short term. Minimum investment timeframe: at least 7 years.

Log in using your Member number and PIN at www.nestlesuper.com.au for detailed profiles of your investment options – you'll find these published in the *Guide to your Nestlé Super* booklet.

Whatever your questions, we're here to help

If you're concerned about the effect of recent market performance on your retirement savings, talk to an expert. We've hand-picked a panel of qualified professional financial advisers to deliver personal financial advice to Nestlé Super members, including investment strategy advice. The first consultation is free, and you'll be matched with a suitable adviser near you. Find out more by calling the **Nestlé Super Hotline toll free on 1800 819 756**.

How it works:

Your insurance cover with Nestlé Super explained

Eligible members of Nestlé Super (Defined Benefit, Insured Accumulation and Temporary Category members) automatically receive basic Death, Total and Permanent Disablement and Income Total Disablement insurance cover (otherwise known as salary continuance cover) on joining the Fund.

Nestlé Australia pays for basic cover on behalf of eligible members, to help protect you and your family in the event of death, disability, injury or illness.

You can also choose to apply for optional extra Death and Disablement insurance if you want to top up your cover. This extra insurance cover is subject to approval from the Fund's Insurer, and you'll be required to provide the Insurer with evidence of your good health (also known as underwriting). The cost of any extra cover is deducted from your Nestlé Super account.

If you, your family or your Estate make an insurance claim, the Trustee of Nestlé Super and its delegates will liaise with the Insurer on your behalf and monitor the progress of your claim, providing you with regular updates and information.

This includes reviewing both your claim and the insurers' assessment, giving you the opportunity to provide further evidence supporting your claim, and re-assessing your claim in the event it is declined by the insurer.

Looking for more information? Refer to the Product Disclosure Statement for your category of membership, or call the **Nestlé Super Hotline on 1800 819 756**.

Contact details – Like to know more?

If you would like to know more about the topics covered in Super News Update, please contact us by any of the methods detailed below.

- Nestlé Super Hotline toll free on 1800 819 756,
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