

legalsuper news

legalsuper's investment committee has an important role in investment decision-making to maximise the returns for our members, according to chief executive, Andrew Proebstl.

Mr Proebstl said that the committee makes decisions to implement the investment strategy and policy of the legalsuper Board and also makes recommendations to the Board on strategy and policy.

The investment committee's members are Geoffrey Solomon (Chair), Geoff Hone, Phil Kennon QC, Hugh Macken and Linda White.

"The committee meets bi-monthly, together with myself as chief executive, our investment expert and asset consultant, JANA," said Mr Proebstl.

"JANA plays an important advisory role and the committee expects JANA to proactively raise issues and make recommendations, ensuring legalsuper investments are well managed."

Mr Proebstl added that each meeting receives a market and investment performance update from JANA, considers the position of any investment managers performing below expectations and receives presentations from existing or potential investment managers.

"We also have an annual full-day strategy meeting and invite investment experts to brief the committee on their best ideas and to provide different insights on matters related to legalsuper's investment strategy.

"The committee is meticulous in seeking out the best expert advice on investments, whether that be from JANA or other external experts."

Investment reviews and decisions

Mr Proebstl noted the following recent activities that illustrated the work of the legalsuper investment committee.

- Interviewed four credit investment managers and decided to invest \$30 million with Babson Capital in a mandate comprising predominantly corporate credit.
- Interviewed two private equity managers, but decided to not invest in private equity at the current time, taking the view that the reduced liquidity was not rewarded by sufficient risk premium.
- Received a presentation from the consultant project managing legalsuper's transition to unit pricing to attribute investment returns to members. Implementation will occur on 31 March 2010.
- Interviewed three Australian equity investment managers and terminated one (Contango), re-allocating the redemption proceeds (\$25 million) to an Australian small cap mandate with Invesco.
- Received presentations from seven external investment experts (including JANA, Mercer, Russell Investments and Vanguard Australia), as part of the annual all-day strategic review meeting.
- Commissioned a tender for the role of asset consultant. The incumbent asset consultant (JANA) has been in the role for six years.
- Approved reductions in investment fees for five investment options. The fees of two options increased nominally.
- Reviewed and affirmed the existing overseas currency hedging policy that seeks to reduce the risk of currency movements for returns on overseas investments.
- Reviewed policies on periodically re-balancing the portfolio back to benchmark asset allocation, and determined to seek to maintain actual asset allocation within 2 per cent of the benchmark, with strategic quarterly reviews.
- Undertook a focused review of the performance of unlisted assets (hedge funds, property and infrastructure).

Performance update

Returns for all legalsuper investment options to 28 February 2010 are listed below.

% pa to 28 Feb 2010	8 months	1 year	3 years	5 years
Cash	2.0%	3.2%	-	-
Enhanced Cash	5.5%	7.7%	5.1%	5.0%
Conservative	8.1%	10.6%	1.8%	4.4%
Balanced	9.6%	13.5%	-	-
Moderate	10.3%	13.3%	-1.8%	4.3%
Assertive	12.7%	17.9%	-4.2%	3.1%
Aggressive	14.6%	20.9%	-5.5%	3.5%
Australian Equities	19.8%	32.4%	-4.6%	-
Overseas Equities	14.3%	21.7%	-7.7%	-
Socially Responsible	21.6%	34.0%	-4.6%	-

The above returns reflect the prevailing crediting rates at the time of writing and include interim rates for February 2010. Crediting rates change as updated information on investments comes to hand.

Note: Cash and Balanced options were launched on 26 July 2008. Australian Equities, Overseas Equities and Socially Responsible were launched on 1 October 2005.

The industry super fund for the legal profession.



Superannuation enquiries: 1800 060 312
 Pension enquiries: 1800 623 502
 Fax: 1800 614 431

Email: mail@legalsuper.com.au
 Mail: GPO Box 4952 Melbourne VIC 3001
 DX: 145 Melbourne

legalsuper.com.au

Issued in March 2010 by Legal Super Pty Ltd (ABN 37 004 455 789), Level 26, 140 William Street, Melbourne VIC 3000. AFSL 246315 as the Trustee for legalsuper (ABN 60 346 078 879). This document contains general information only and is not intended to be a substitute for advice. It does not take into account any individual's or organisation's investment objectives, financial situation or particular needs. Accordingly, any individual or organisation should seek professional advice that takes account of their needs, objectives and circumstances before making a decision in relation to any of the matters covered in this document.

Investment brief

Market news – update from Dr Neville Hathaway, legalsuper's investment expert

The Australian economy has travelled better than virtually all developed countries through the global financial crisis.

There were three key reasons: our floating dollar, the performance of some trading partners (for example China) and the Federal Government's stimulus package.

The performance of the Australian share market has to a large degree reflected our economic recovery. From its low point in March 2009, the ASX All Ordinaries Index has now recovered close to 50% of its GFC-related losses.

One indicator of the recovery is that super funds like legalsuper have been comfortable to hold their Australian equities allocations steady. Around 32% of legalsuper members' assets are now invested in Australian equities.

At the same time, legalsuper remains on watch and in conjunction with our asset consultant JANA and investment managers, is on the lookout for new investment opportunities that may present themselves in the post-crisis period.

The price of risk

Another indicator that markets are stabilising and in some cases improving is the price of risk. When risk premiums go up, share prices tend to fall. When risk premiums go down, share prices tend to recover. Investors watch this important dynamic.

At the moment we are seeing declines in the price of risk, which suggests that share asset prices will continue to return to normal.

In terms of the coming financial year, we are less likely to see investment growth of the same magnitude that we saw before the downturn over the last two financial years. Asset prices have grown sharply in the current financial year and recovered the lion's share of losses over the last two financial years.

Future earnings will continue to be hard to predict, but there may be some welcome improvements ahead. While before the crisis, analysts tended to be overly optimistic about earnings forecasts, they now tend to be overly pessimistic.

Volatility and the global economy

The variation in share price performance in Australia is partly due to it being a small and open economy therefore impacted by movements in the global economy which remain disparate. Performance will therefore be patchy in Australia – some sectors will do better than others, largely depending on which parts of the world they are dealing with.

Now is arguably a good time for active investment management to provide a real return advantage. legalsuper engages active investment managers to secure above-index value from active stock selection. This will position super funds like legalsuper to find value where it exists in the Australian share market.



Dr Neville Hathaway

legalsuper appointed Dr Neville Hathaway as an expert investment adviser to our investment committee in June 2009. Dr Hathaway attends all investment committee meetings.

With more than 25 years experience in finance and investments, Dr Hathaway brings to legalsuper a unique combination of direct investment management experience and deep financial market insights from academic research.

He has held senior roles with a number of investment managers including Capital Research Group, County Investment Management and Invesco Asset Management. He was also an Associate Professor of Finance at the Melbourne Business School for six years.



Equities in focus

Welcome to the first edition of *Investment Brief*.

In this edition we focus on equity markets and ask two of legalsuper's new investment managers their views of the opportunities to gain from active management of investments in equities.

legalsuper's equity portfolio represents approximately 60% of our total investments, with just over \$447 million invested in Australian shares and \$308 million invested in overseas shares.

It is always important to keep in mind that equity markets are not always efficient. As such, we employ an active management approach toward asset allocation and manager styles.

The tables below list legalsuper's equity managers.

The overseas equity portfolio is underweight the US and overweight the EU and emerging-markets. This is a result of opportunities being seen by our investment managers and the structural positioning of the overseas equity portfolio, which has been configured with an exposure of around 10% to emerging markets.

I trust you find this newsletter of value and welcome your feedback. If you have any suggestions for future articles, please email me at aproebstl@legalsuper.com.au

Andrew Proebstl
Chief Executive

Australian Equity Portfolio as at 28 February 2010

Manager	FUM (\$m)	% of portfolio
AMP	10.1	2.3%
Balanced Equity Management	110.4	24.7%
Cooper Investors	100.3	22.4%
Integrity Investment Management	113.6	25.4%
Invesco	24.1	5.4%
Member Direct Shares (S&P/ASX200)	3.1	0.7%
Solaris	85.9	19.2%

Overseas Equity Portfolio as at 28 February 2010

Manager	FUM (\$m)	% of portfolio
Alliance Bernstein	21.7	7.0%
Baillie Gifford	21.1	6.9%
Capital	84.1	27.3%
Esemplia	13.0	4.2%
Genesis	1.3	0.4%
Marathon	51.1	16.6%
Marvin & Palmer	15.3	5.0%
MFS Asset Management	25.2	8.2%
Platinum	22.1	7.2%
Pzena	24.2	7.8%
Wellington	29.4	9.5%

Promising outlook for

According to legalsuper's investment managers, Platinum Asset Management and Solaris Investment Management, active management of international and Australian equities should deliver growth into next year.

Though Platinum's Institutional Business Manager, Andrew Grimes has some concerns about the outlooks for markets, he believes that Platinum should be able to continue to make further investment gains for its clients.

"We can't forecast the returns of the markets, but we continue to do what we have always done," said Mr Grimes.

"We focus on generating superior absolute returns and avoiding loss of our investor's money. We do this by seeking undervalued stocks, where the downside is limited and the market has failed to understand the company's full potential."

Platinum has a conservative, risk-averse approach to investing and although the fund has outperformed in both bull and bear markets, Platinum tends to outperform the index most significantly when markets are falling.

At the end of December 2009, its Platinum International Fund (in which legalsuper is invested) was outperforming the MSCI AC World Net index across all time periods.

% pa to 31 Dec 2010	1 year	3 year	5 year	10 year	Inception
Platinum International Fund	19.7%	4.64%	8.05%	9.66%	14.7%
MSCI AC World Net Index	4.37%	-8.68%	0.31%	-2.72%	4.4%

Stock fundamentals on the rise

Solaris Managing Director, Denis Donohue believes that the Australian share market will also continue to provide good opportunities for investors in 2011.

"We believe equity market recovery should continue in the balance of the 2009/10 financial year and into 2011, with consensus earnings growth being about 24% for 2011," he said.

"As economic and market volatility recedes, stock-specific fundamentals should become dominant again."

Solaris aims to outperform the portfolio's benchmark, the S&P/ASX200 Accumulation Index, by 3% each year, over rolling three-year periods.

"We are an active, style-neutral equities manager using fundamental analysis to select the stocks in which we invest our client's money," Mr Donohue said.

"Over the 12 months to December 2009, we outperformed our benchmark by 2.75%, with top contributions coming from overweight positions in Equinox Minerals, Rio Tinto and Transfield Services."

% pa to 31 Dec 2010	1 year	Inception
Solaris portfolio return	39.79%	5.43%
S&P/ASX200 Accumulation Index benchmark return	34.03%	1.81%

active management

Seeking value in developed nations

Developed nations should not be overlooked in the search for value, warns Platinum's Andrew Grimes.

"Emerging markets like Asia have been the place of choice for investors recently, as many have formed a view that these countries will have the best future growth prospects," he said.

"While we have no argument with this analysis and hold one-third of our long holdings in emerging markets, we also avoid many of the leading companies which seem to be pricing in high expectations and instead look for opportunities in less obvious places."

Platinum's largest individual holdings including Microsoft Corp Information Technology (3.3%), Cisco Systems Information Technology (2.7%), Henkel Consumer Staples (2.6%), Siemens AG Industrials (2.3%) and China Resources (2.2%).

"There are many well-managed companies in the developing world with significant earnings in Asia and other developing areas," Mr Grimes added.

"Companies in these locations have all the virtues of strong corporate governance and diversified risk, but often trade at valuations below their historic averages.

"We are looking for specific opportunities that have been labelled by others as 'dull', but which we believe are well positioned to evolve into something much more interesting."

The search for truly interesting companies

Both Platinum and Solaris are firm believers in harvesting value from undervalued stocks.

"Optimism and pessimism ebb and flow in share markets, and thereby affect the share prices of individual companies," Mr Grimes said.

"That is to say, there are times when events that are transitory in nature have a disproportionate effect on a company's share price, be they positive or negative. There is thus a tendency for shares to deviate significantly from their inherent trend line.

"The secret lies in differentiating between truly interesting companies that are facing temporary setbacks from those which are lesser businesses and face fundamental problems," he added.

Solaris picks stocks using fundamental analysis to exploit market inefficiencies in forecasts and valuations.

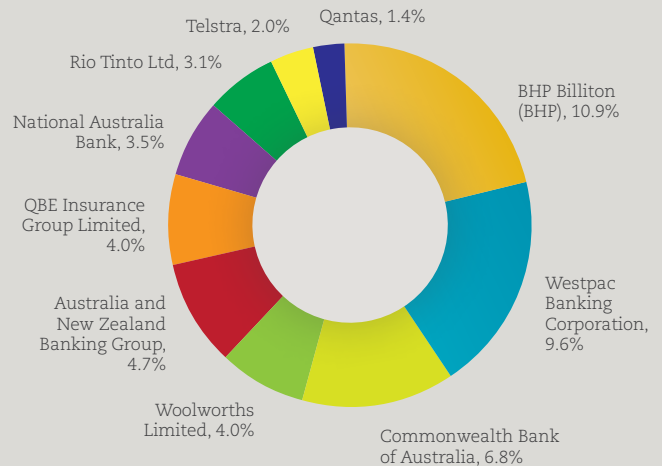
"While our analysts do not target specific sector active weights, the current sector weights of our portfolio give an indication of the industries where we see the best opportunities," said Mr Donohue.

"At present, our highest sector overweights are in commercial services – where we have overweights in Brambles, Seek and Transfield – and media, where we have overweights in Austar and News Corp," he said

Solaris manages \$3.746 billion, which is invested in 53 Australian companies, with the five largest holdings being BHP Billiton Limited (11.92%), Commonwealth Bank of Australia (6.90%), Westpac Banking Corporation (6.11%), National Australia Bank Limited (6.06%) and Australia and New Zealand Banking Group (6.08%).

legalsuper's top 10 Australian stock exposures

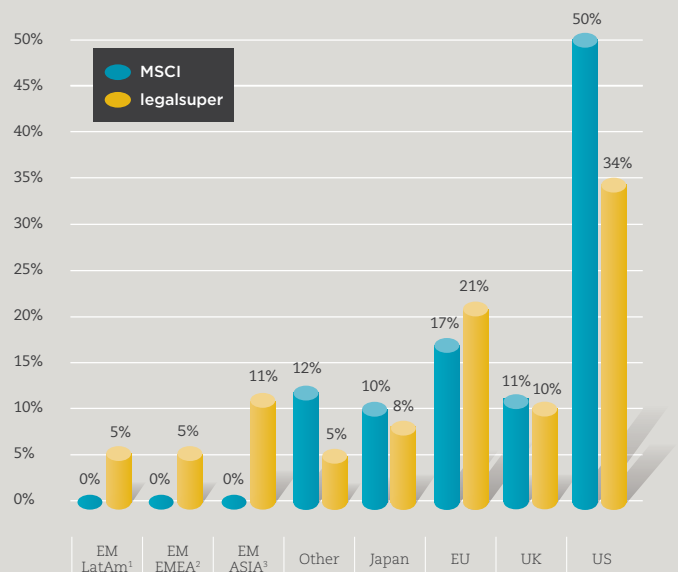
The following chart shows the top 10 stock exposures of legalsuper's Australian equity portfolio as at 31 December 2009.



legalsuper's overseas equity portfolio

The following chart shows the geographic exposures as at 31 December 2009 of the overseas equity portfolio of legalsuper, versus the MSCI World ex Australia index.

Geographic exposures – legalsuper vs MSCI Index



¹ Emerging markets – Latin America

² Emerging markets – Europe (non-EU), Middle East and Africa

³ Emerging markets – Asia