

PITCHER RETIREMENT PLAN *NEWS*



March 2019

Member update

Half-year ended 31 December 2018

Volatile market conditions, particularly in the later part of 2018, resulted in disappointing returns for the six months to 31 December 2018 across the whole superannuation industry. However, longer term returns remain strong and comparable to stated investment objectives.

Members should note the Trustee has an obligation to invest in the asset classes for each investment option, as detailed in the Fund's Product Disclosure Statement (PDS), irrespective of the prevailing market conditions. The PDS can be found on the Fund's website. If members want to change their investment option, they can complete and lodge an investment switch form.

Since year end, investment markets have rebounded strongly. This uplift however is not reflected in the performance information below as we are required to report for the period ended 31 December 2018.

Investment performance

The performance of each investment option for the half year ended 31 December 2018 is below.

Investment option	Cash	Capital Stable	Balanced	Growth	High Growth
PRP crediting rate (half-year) ¹	1.10%	-0.83%	-2.29%	-4.60%	-6.39%

Short term performance should be viewed in the context of longer term performance which remains strong. The annualised performance of each investment option for the last 5 years to 31 December 2018 is below.

Investment Option	Cash	Capital Stable	Balanced	Growth	High Growth
PRP (5-year average) ²	2.57%	4.14%	5.29%	5.57%	6.14%
Long Term Investment Objective ³	2.9%	4.9%	5.4%	6.4%	6.9%

Market returns

Listed equities corrected sharply over the December 2018 quarter, resulting in negative returns in most markets and asset classes. The following were the benchmark returns of the major asset classes for the six months ended 31 December 2018:

Income asset classes			Growth asset classes			
Australian Fixed Interest	International Fixed Interest	Cash	Australian Shares	International Shares ⁴	Australian Listed Property	International Listed Property
2.80%	1.59%	0.99%	-6.83%	-6.56%	-0.08%	-5.49%

¹ Please contact the Plan for the specific pension crediting rates. Investment earnings of pension accounts are not taxed in the Plan and, accordingly, the crediting rates for pension members will be different than those disclosed above.

² Five year compound average return.

³ Long Term Investment Objective is outlined in the Pitcher Retirement Plan Product Disclosure Statement titled "Investment Strategies". This document can be found at www.prpsuper.com.au

⁴ Benchmark is 50% currency hedged/50% currency unhedged

Investment commentary and outlook

Financial markets were impacted by the gap in economic growth between the US and the rest of the world. The US economy continued to grow strongly, while economic growth in Europe and Emerging Markets slowed.

Multiple geopolitical events impacted on equity markets and investor sentiment with the US-China trade war dragging markets down. In addition, uncertainty regarding Brexit negotiations in the UK and budget negotiations in Italy also negatively impacted equity markets. The calendar year ended with another US Government shutdown, further damaging sentiment and confidence.

In fixed income, we saw a greater dispersion in both risk and return across differing regions as growth and monetary policy diverged. US Treasuries underperformed, while German Bunds, despite starting with low yields, were unexpectedly the top performing asset of 2018.

Commodities reversed some of the strong gains enjoyed in the first half of the year, with energy leading the declines as concerns intensified around rising rates and future growth.

Closer to home, 2018 GDP growth was underpinned by infrastructure spending, stronger than expected exports and an improvement in business investment (including in the mining sector). This helped reduce the Federal budget deficit which is expected to move to surplus within the next year. Another positive was the strong labour market, with the unemployment rate declining to 5% late in the calendar year.

The macro-prudential measures employed by APRA had the desired impact on the Australian housing market, with a 5-10% decline observed in the value of housing across all Australian

capital cities. The Royal Commission has put further pressure on the financial sector, which highlighted some very poor conduct in parts of the sector in previous years.

Previously dormant wage growth levels did edge up – but only at a very modest pace. This helped keep inflation in check and below the RBA's preferred target range. Accordingly, the RBA saw no reason to move interest rates over the course of the year, leaving the cash rate at 1.5%.

Australian equities posted their weakest calendar year return since 2011, declining 2.8% for the year to 31 December 2018. The year ended with a correction, with the market falling by 8% over the December quarter following offshore leads on slowing global growth.

Large caps outperformed small caps over the year while the leading sector performer was healthcare, with CSL the top performer (+33%). The weakest performing sectors were communications and financials. The chief culprits were Telstra (fell 16% on the back of its huge restructuring program) and the banks, which face significant remediation and restructuring costs on the back of the Royal Commission – the outcomes of which were released in February 2019.

Looking ahead to 2019, risk assets have bounced back from the lows we saw in December 2018 but are likely to remain highly sensitive to global growth trends.

Asset allocations

The following schedule details the allocation of assets for each investment strategy.

Investment Strategy	Cash	Capital Stable	Balanced	Growth	High Growth
Australian Equities	0%	10.5%	20%	31%	44.7%
International Equities	0%	8.5%	16%	23%	30.3%
Listed Property	0%	6%	8%	10%	10%
Alternatives	0%	5%	6%	6%	6%
International Fixed Interest	0%	14%	11%	10%	0%
Australian Fixed Interest	0%	19%	19%	18%	7%
Cash	100%	37%	20%	2%	2%
Total	100%	100%	100%	100%	100%

A full list of managers in the Pitcher Retirement Plan can be found at www.prspuper.com.au.

Further Information

Disclosure documents and forms are available from the Plan's website www.prspuper.com.au. Any questions you may have can also be directed to the Plan's administrator on (03) 9691 2944 or prp@pitcher.com.au.

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Fund

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