

Mark Delaney
Deputy Chief Executive & Chief Investment Officer
AustralianSuper
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HOW THINGS HAVE CHANGED?

Sept 2008

- Lehmans exit
- AIG fails
- Credit supply collapses
- Economic activity plummets
- World is critical and on life support

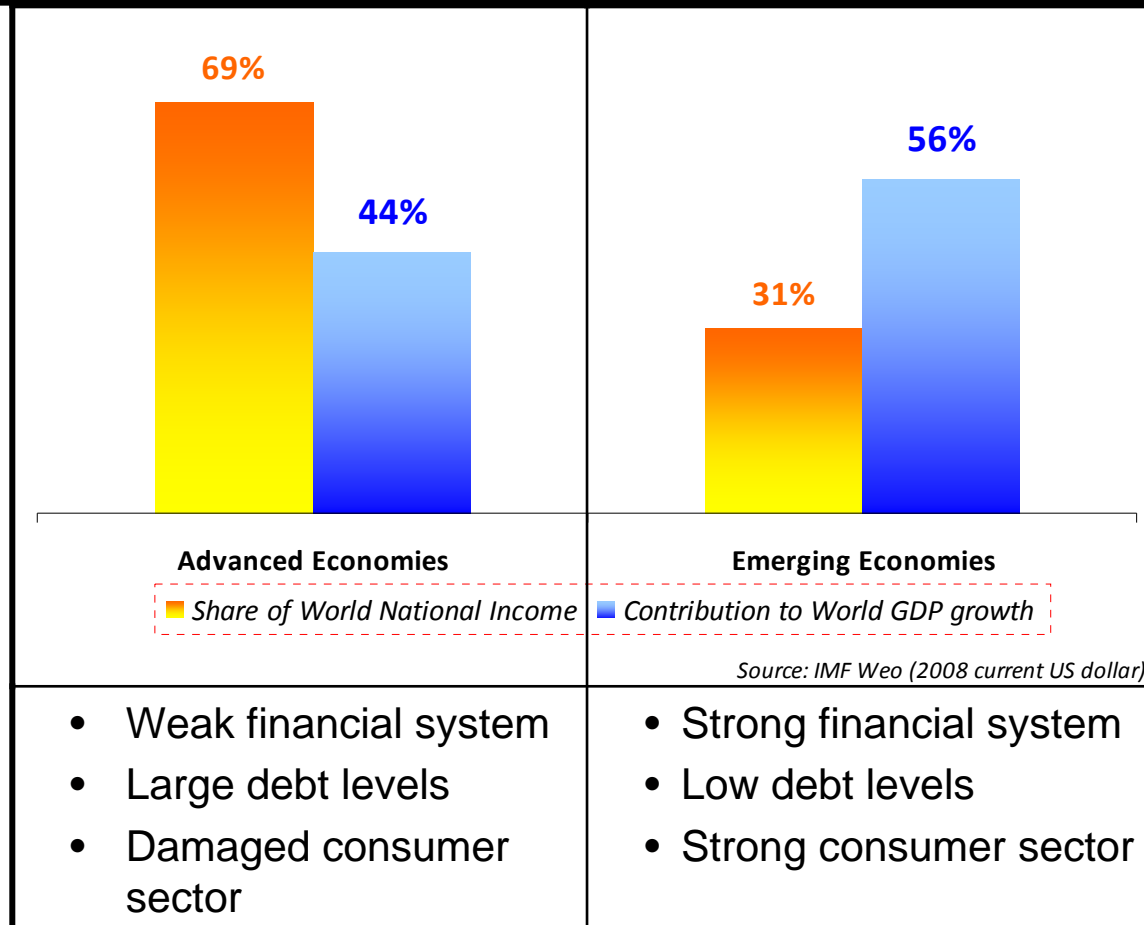
August 2009

- Green shoots bloom
- Banks repay TARP funds
- Deleveraging continues
- Economies start growing again
- Equity markets rally in anticipation

WHAT DOES THE RECOVERY LOOK LIKE?

- | | | |
|------------------|---|----------------------|
| 1. Normal | – | No one believes this |
| 2. Quite subdued | – | Consensus |
| 3. Double dip | – | Worried by receding |

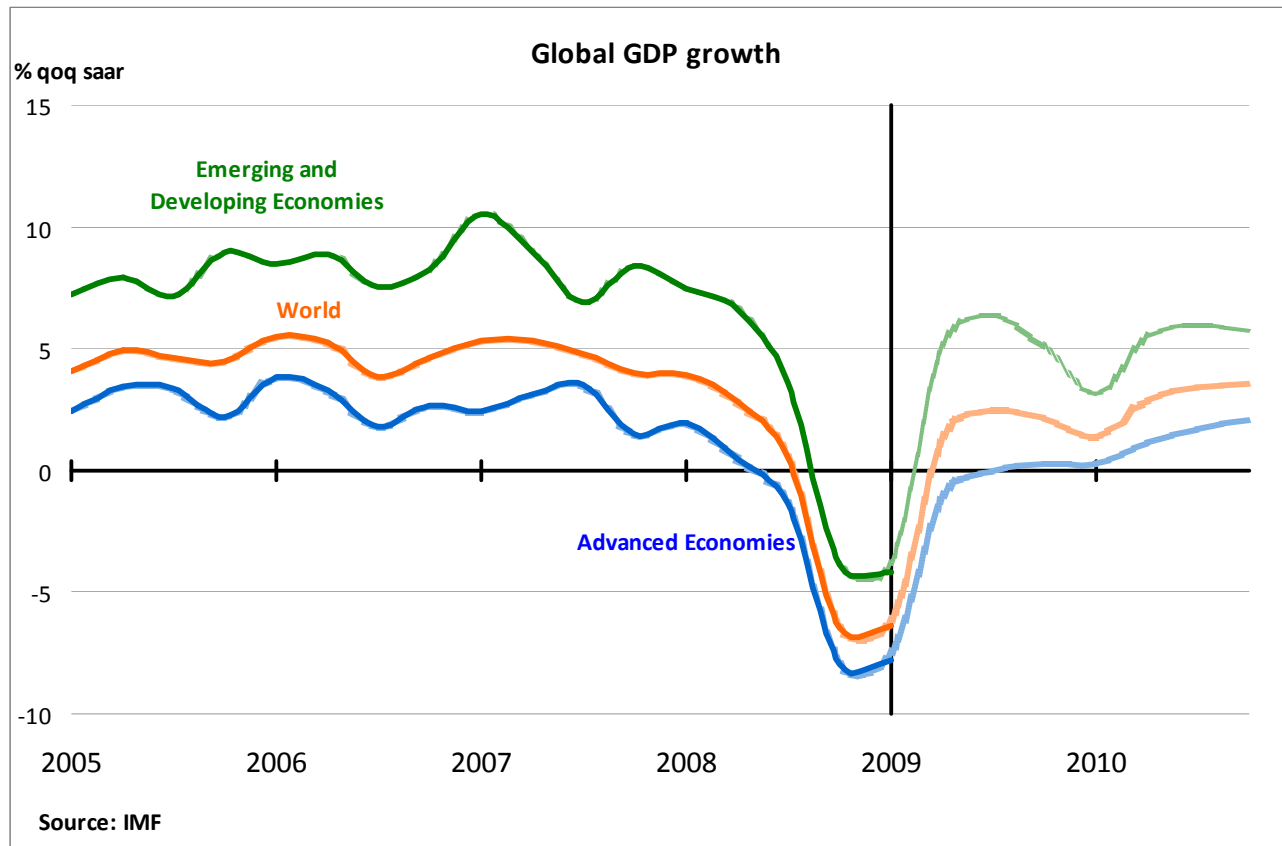
A BI-POLAR WORLD



KEY ISSUES FOR MARKETS

- i. House prices – savings – consumption;
- ii. Shadow banking system – credit creation;
- iii. Fiscal stimulus – 2009 into 2010; and
- iv. Monetary stimulus – how much and when.

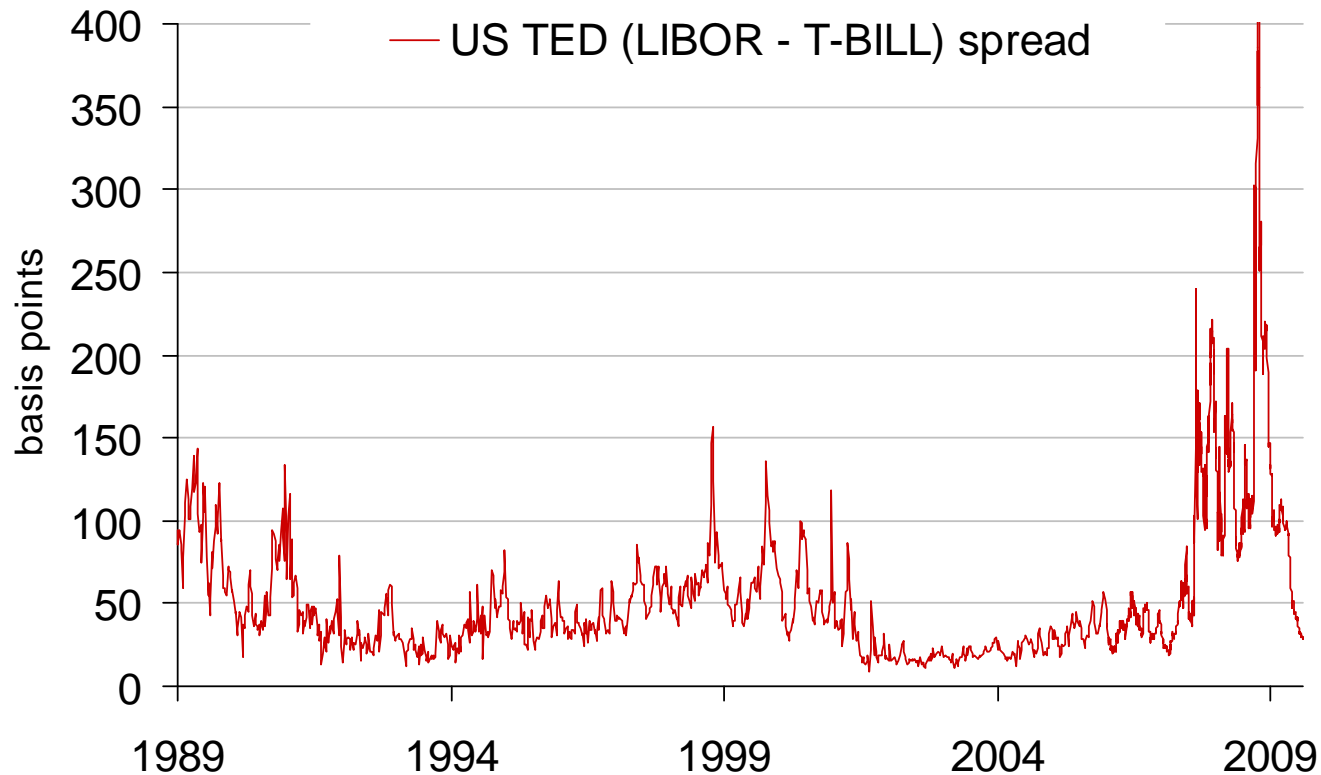
WORLD GDP TO RECOVER IN 2010



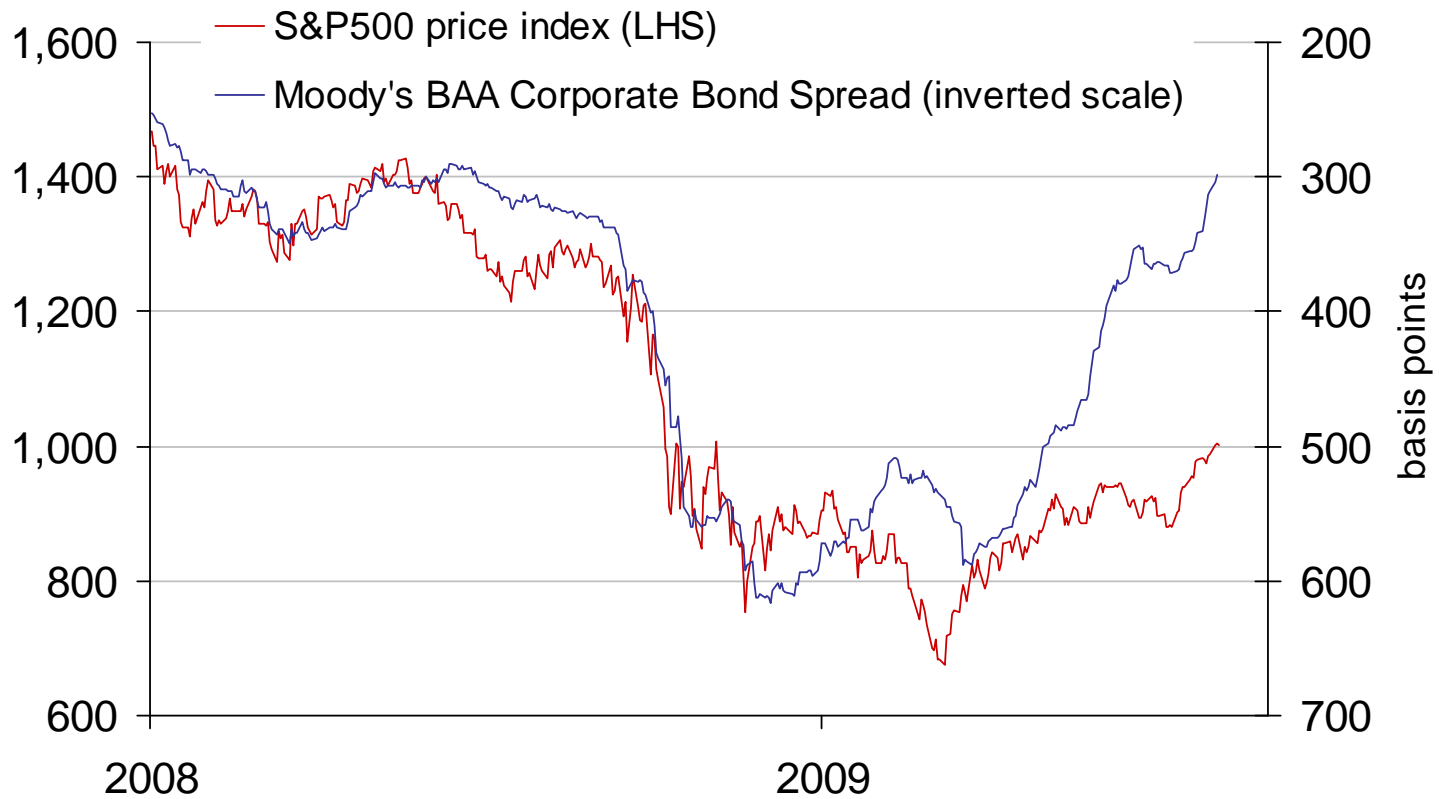
OUR BIG PICTURE VIEW

1. Entering period of economic recovery;
2. Listed equity markets valuations are undemanding;
3. Interest rates bottomed but no rise; and
4. Credit spreads to narrow.

TED SPREAD BACK TO NORMAL LEVELS



BOTH DEBT AND EQUITIES ARE STRONG



WHAT'S ATTRACTIVE?

Positive

Emerging Markets

Australian Equities

Developed Equities

Neutral

Hedge Funds

Private Equity

Bonds

Poor

Property

Infrastructure

Cash

THOUGHTS ON THE PAST FOR THE FUTURE

1. Very hard to diversify a large economic downturn;
2. Most asset classes have significant systematic risk;
3. The \$A is a useful diversifier in very poor times;

...continued

4. Leverage works both ways – up or down; and
5. Best opportunities are always when the news is the worst; and

Investing is about the future – not the past or the present.