Rio Tinto

Rio Tinto New Zealand Retirement Fund

SUPER NEWS

June 2010

Investor update

The 2010 calendar year started well for investors, with the release of positive economic data supporting confidence that the global economic recovery was well on its way.

After a strong rebound from their March 2009 lows through the remainder of last year, share market returns for the first four months of 2010 were at a more sustainable level. Returns from fixed interest continued to be moderate, reflecting investors' preference for higher growth assets such as shares and property. Record low short-term interest rates have kept returns from cash modest.

However, some risks remain. While strong economic growth has been evident in countries such as China, the United States, Australia and Brazil, there are concerns about higher interest rates, troubles with the euro zone as a consequence of Greece's debt problems, and the overall health and stability of the global financial system.

In New Zealand, the recovery's momentum has faded a little. However, business and consumer confidence remains at above-average levels, unemployment is dropping and prices for dairy commodities remain high. On the other hand, the strength of the New Zealand dollar, relative to the US dollar in particular, is making it difficult for exporters.

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Of PIGS and BRIC

Two acronyms, PIGS and BRIC, have featured in recent economic news. The PIGS economies - Portugal, Italy, Greece and Spain – all face serious budget shortfalls and have had their credit ratings cut, making borrowing more difficult and foreign investment unlikely.

The concern about the PIGS economies and their high debt levels stems from the potential to disrupt international credit markets. For years, the less-wealthy economies of the PIGS (and Greece in particular) took advantage of the financial good times to borrow when credit was cheap and then increased their debt further to support rescue packages during the global financial crisis. In the final quarter of 2009, banks started to become anxious about the ability of these governments to repay their loans, causing interest rates to rise dramatically.

The first hint of trouble occurred in January 2010 when Dubai shocked markets by announcing that it no longer stood behind the debts of its financially stretched state-owned enterprises. Fortunately, its fellow and richer emirate, Abu Dhabi, eventually came to the rescue.

Rescue options for the PIGS are more problematic. Membership of the common currency euro zone excludes the easy option of devaluing the currency to make exports more competitive and reduce demand internally. This means the main options are higher taxes and reduced government spending and it is the prospect of this that caused recent riots in Greece.

The Greek situation reached crisis point in the first week of May 2010, when interest rates rose and stock markets fell dramatically. European Union finance ministers, central bankers and the International Monetary Fund have now reached agreement on a US$1 trillion rescue package, the largest rescue package since the US government's US$700 billion Troubled Asset Relief Program (TARP) in 2008. Share markets reacted by rebounding sharply, but have subsequently struggled.

The PIGS are a direct contrast to the BRIC countries – Brazil, Russia, India and China, the new industrial economic powerhouses of the world - which (apart from Russia) kept on growing while the UK, Europe and the US plummeted in to recession.

Investors are watching Brazil closely as the announcement of the discovery of billions of barrels of offshore oil looks set to change the balance of political and economic power in Latin America and beyond. The other emerging market everyone is discussing is China. However, unlike Brazil and Russia, China is short of natural resources and is spending to import the raw materials needed for the economy to continue to grow. India has vast manpower, but little in resources, and religion and politics sometimes collide to cause problems for business.

Headquarters of the International Monetary Fund, Washington DC.

Russia was the only BRIC to suffer economic contraction in the global financial crisis, largely because it is too dependent on commodity prices and still has corporate governance issues. However, Russia's economy expanded for the first time since 2008 in the three months through to March 2010 as the world's biggest energy producer rebounded on an oil-funded stimulus programme and record-low borrowing costs.

What happens in the next decade to the BRIC countries is likely to be of global importance. They are already huge countries with governments representing a massive proportion of the world's population.

How are the Fund's investments positioned in all of this?

Just as no one asset class can perform well all the time in all market conditions, nor can a single fund manager. Nor is it feasible to predict which asset class or fund manager will be the next to outperform. To avoid having 'all its eggs in one basket', reduce volatility and potentially increase long-term returns in different market environments, the Fund's assets are invested by different managers in different countries in a range of different types of investment (for example, for shares across a variety of industries and companies and for fixed interest across government and corporate bonds).

To achieve the level of returns necessary for long-term savings, a significant percentage of the Fund's assets are invested in international shares. To reduce the volatility inherent in this asset class, the Trustees use a multi-manager investment approach. The Fund's multi-manager (Mercer) sets the overall strategy for the portfolio and appoints a combination of managers with different, but complementary, investment styles, philosophies and processes.

The Fund's international shares portfolio has been designed to utilise multiple sources of idea generation (i.e. quantitative, thematic or fundamental stock analysis), with an aim to ensure that alpha (or manager added value) sources remain independent throughout the investment cycle. Each of the managers is responsible for determining the appropriate investment universe (for example, country and industry) – within the global stock markets – which reflects the individual manager's investment style. The managers then actively manage all stock positions and ensure the portfolio remains within diversification and risk limits. Mercer monitors the managers' performance and if necessary, replaces managers that are underperforming or have deviated from their defined investment styles.

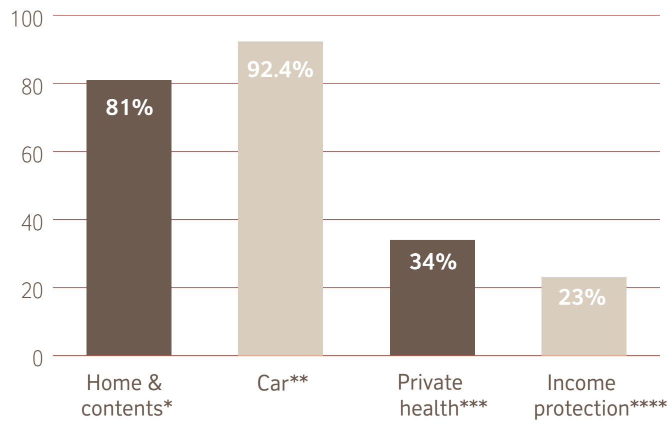
Are you covered?

Whether you're highly organised or more of a free spirit, there is little argument that having insurance cover makes good sense.

Put simply, insurance provides financial protection against unexpected loss, damage or injury. Worse still, in the event of your death, your dependants will need to pay their day-to-day living expenses without the benefit of your regular income. Without insurance you or your dependants need to have the finances to meet these expenses, which, depending on the circumstances, can be very significant.

Most people already have home and contents and car insurance, with around a third of New Zealanders also having private health insurance. Less common – but possibly more important – is personal insurance for death, disability and income protection.

The following graph shows some of the main types of insurance cover in New Zealand and the approximate percentage of people covered.



* NZ General Social Survey 2008
** Ministry of Transport 2010
*** Health Funds Association Health Insurance Statistics 2010
**** AIG Life Survey 2009

While these statistics tell us about the take-up rate for various types of insurances, what they don't reveal is the number of people who have insurance but don't have enough for their individual circumstances.

Underinsurance (insufficient cover) is a huge problem in New Zealand. A survey commissioned by the New Zealand Insurance Council in 2006 reported that one quarter of home owners who take out insurance admit to not insuring to the full size or value of their home. Furthermore, one third of people with contents insurance knowingly have an inadequate sum insured, ranging from 25% to 50% of the true contents value.

Even more alarming are the facts around life insurance. Published AIA research in 2005 revealed that almost half of all New Zealanders have absolutely no cover on their life or health (that is, life, income protection or critical illness insurance) and of those who do, only a quarter are confident that the level of cover would be sufficient to look after their family in the event of death or serious illness.

In light of this, it's not only a good idea to regularly review your current insurance arrangements to make sure you are adequately covered but also to work out if you have any new insurance needs. A financial adviser can give you personal advice about insurance cover that fits your needs.

Insurance cover* through the Fund

One of the key benefits for subsidised members of the Fund is flexible insurance cover for death, total disablement and ill-health. Employees working in our industry may find it difficult and expensive to obtain this cover through external insurers. Recognising this, the Fund offers members the choice of three levels of insurance cover – Basic, Medium and Top – at competitive rates. In fact, it is a condition of membership that subsidised members of the Fund have at least the Basic level of protection.

* Insurance cover is not available to unsubsidised members or retirement account holders.

Is your cover sufficient?

Around 50% of subsidised members currently only have the Basic level of insurance cover available under the Fund. Given the earlier statistics on underinsurance, it may be a good idea to consider whether your current death, total disablement and ill-health cover is enough for your personal circumstances.

One approach might be to work out how much you might need to secure your and your dependants' financial future. Things to consider include the ongoing costs to maintain your family and home, education costs, existing debts (for example, house and car loans and credit card debt), medical costs etc.

Then work out the value of your assets and any existing insurance that could be used to meet these costs. When doing so, remember that the payout on death or total disablement from the Fund is generally your account balance plus the insurance amount.

If there is a shortfall in the value of assets available to cover your expenses, then consider increasing your insurance through the Fund to bridge the gap. You'll have to complete a form and a medical questionnaire if you request additional cover and may also need to provide further medical information to help the Trustees assess your eligibility.

Call the Fund Member Helpline on **0508 266 787** to find out how much insurance cover you have in the Fund and your options for increasing this amount. You can also view your level of cover on the Fund's website realsuper.superfacts.co.nz. Forms for requesting a change for your cover are also available through the Helpline or the website (and more information is provided in the Fund's Investment Statement).

Remember, investing a little time now to sort out your insurance needs could be time and money well spent.

An example

Sam is a NZAS subsidised member. He has just turned 40 and earns a salary of $60,000. Sam's Basic death and total disablement cover with the Fund is $120,000 (his ill-health cover is half that amount). His standard account balances total $100,000 and his locked-in account balances total $15,000. A lump sum of one times his salary would also be paid out either by his employer or from the Fund on his death or total disablement.

Sam is married with two dependant children and, after estimating his family's future financial needs, is concerned that his Basic death and total disablement cover would be inadequate to provide for his family if something happened to him. Sam contacts the Fund Helpline and learns that he can increase his cover to either Medium ($180,000) or Top ($240,000).

With the help of a financial adviser, Sam works out that Top cover would be a better choice for his personal situation. This would give Sam a death benefit at today's date of $415,000, being his insurance amount, account balances and payment of his one times salary added together. If Sam suffers total disablement, payment of his locked-in account balance may be delayed until he reaches age 65 unless the Trustees determine he has suffered serious illness (refer to page 21 of the current Investment Statement for details).

Sam completes an *Insurance change* form and medical questionnaire and the Fund subsequently accepts his request for additional cover.

Sam now has $240,000[1] of death and disablement cover, though this will gradually decrease as he nears age 65 (Top cover is 16% of base salary multiplied by complete years to age 65 with part years counting proportionately). As of June 2010, this cover would cost him $55 a month initially, which is deducted from his company account.

Remember, there are advantages in obtaining additional insurance cover through the Fund. For example, the premiums the Fund deducts for death and disablement cover may be cheaper compared with being individually insured through an external provider. An added advantage is that the cost of any extra cover is deducted from your super account – so you don't have to worry about paying regular insurance bills.

Before making any decisions about your insurance in the Fund you should speak to a financial adviser.

[1] This also covers Sam for ill-health, where 50% of the insured amount is provided.

Important information about your nominated beneficiaries

Your nominated beneficiaries are the people (or person) you elected on the *Nomination of beneficiary* form you completed when you joined the Fund (or a subsequent *Change of beneficiary* form) as the preferred recipients for your death benefit should you die while you are a member of the Fund. Your nominated beneficiaries automatically include your spouse, unless your *Nominated beneficiary* form or a subsequent *Change of beneficiary* form advises otherwise. You may also nominate your estate (i.e. personal representatives) as the recipient, however nominations to family or charitable trusts are not permitted.

It is important to be aware that the Trustees have the discretion as to how the benefit is paid. As well as considering any nominated beneficiaries, the Trustees may pay all or any part of your death benefit to your estate or to any person they consider you owed a moral or legal obligation to support.

The law currently requires that the balance in your locked-in account (including the member tax credits paid to that account) must be paid to your estate.

If when you die you have a spouse or long-term de facto partner, then your death benefit will be 'relationship property' as defined in the Property (Relationships) Act 1976. The Family Court will have power in certain circumstances to override your preferred beneficiary nomination and the Trustees' discretion (and, in the case of your locked-in account balance, the requirement that this be paid to your estate) and order a portion of your death benefit to be paid direct to a surviving spouse and/or de facto partner.

You can check your current nomination(s) on the Fund website or by calling the Helpline and make a change by obtaining a copy of the *Change of beneficiary* form via the Helpline or website.

Media reporting on investments

Media reporting around investments has certainly been more evident since the global financial crisis, resulting in more people taking an active interest in the performance of their super.

While this increased media coverage is positive in terms of the education it provides, a lot of the information is focussed on short-term returns and market movements. This can lead to short-term thinking and, in turn, reactive behaviour and rash decision-making – such as inappropriate investment switching.

For most people super is a long-term investment, typically meaning they have an investment timeframe of seven years or more. So by all means take an interest in all the investment information available to you through the news media, but do remember to keep your focus on long-term returns for your super. Investments can fluctuate from day to day and markets are cyclical in nature but they have historically recovered from periods of significant downturn.

Your investment strategy should be based on your personal circumstances and generally you should stick to it unless there is a change in your situation that sparks the need for a review.

Change investment options online

Did you know you can now change your investment options online? Before doing so, you should refer to the Fund's most recent Investment Statement for details about the investment options – this is on the *Your Library* page of **realsuper.superfacts.co.nz.**

Step 1 Log on to realsuper.superfacts.co.nz (you'll need your member number and PIN)

Step 2 Select 'Your investments' from the menu bar at the top of the home page

Step 3 Click on 'Change investment options' above the listing of your current investment option(s)

Step 4 Insert your new percentage(s) and then hit submit – it's as easy as that!

Your new investment strategy:

- Applies to your account balances and future contributions; and
- Will take effect from the first day of the month following the month in which your application to change investment options is received.

You can elect to split your investments (in whole percentages) between any of the four investment options. The total must equal 100% or your election will be treated as invalid and not processed.