

# Quarterly

## Member investment update

Quarter ended 31 March 2011

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## Markets navigated a rocky road in the March quarter

The natural disaster in Japan and political unrest in North Africa and the Middle East led to fluctuating share markets and rising share prices for energy companies during the March quarter.

Meanwhile, infrastructure and property investments continued to provide steady returns.

### Australian shares

The rise in commodity prices such as oil meant the Energy sector of the Australian share market rose 11.8% during the March quarter. Although the Australian share market again went up and down throughout the quarter, our Australian shares investments returned 3.2%, compared to the benchmark return of 3.1%. For the 12 months to the end of March the portfolio's return was 4.1%, compared to its benchmark return of 3.8%.

### International shares

International share markets began 2011 in a positive fashion and this continued into February. However, a combination of the Japanese disaster, unrest in the Middle East and North Africa and concern about rising oil and commodity prices saw returns from international shares turn negative in March. Investor concerns about the economic impact of higher oil prices and growing inflation also had an impact on emerging markets. This concern saw the share markets in some of last year's best performers – like India – decline during the quarter.

As many of these issues are continuing, international sharemarkets are likely to continue moving around for some time to come.

The Australian dollar's strong rise against other currencies, particularly the US dollar, modified the returns of our International shares investments.

Despite the current challenges in this sector, our International shares portfolio returned a solid 3.2% in the March quarter. Its return for the 12 months to the end of March was 4.6%, compared to a benchmark return of 1.2%.



# Quarterly

## Member investment update

### Performance of AustralianSuper's Balanced investment option

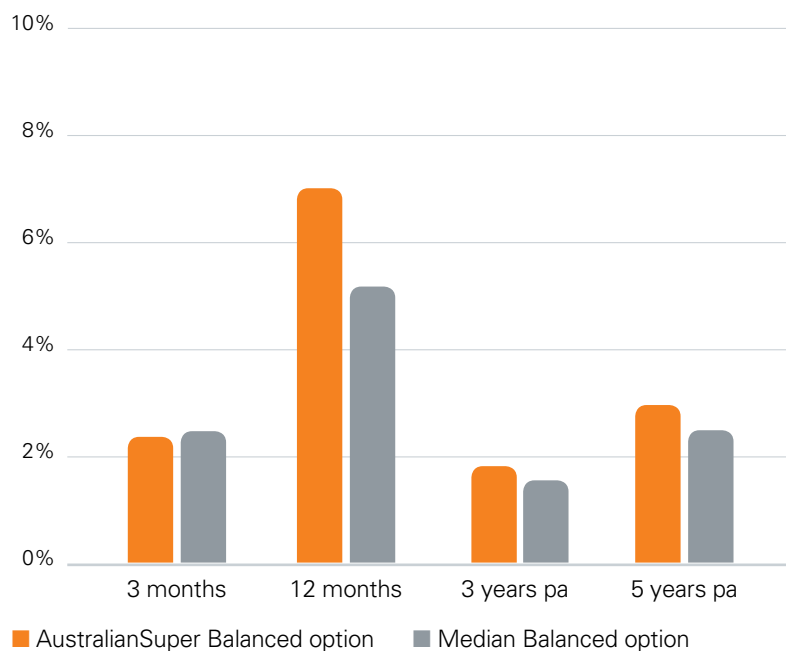
The unsettled performance of Australian and international sharemarkets kept returns for our Balanced investment option at 2.3% for the quarter to the end of March. This was slightly below the return of 2.5% for the median balanced super fund\* for the same period. However, the return of our Balanced option for the 12 months to 31 March was 6.9%, compared to the median balanced super fund return of 5.4%. And over the ten years to that date the average annual return of our Balanced option was 6.6%, which compares very well to the median balanced fund return over the same period of 5.4% per annum.

Despite the uncertainty created by natural disasters and political unrest in the March quarter, most investors remained optimistic about the signs of renewed growth appearing in the global economy. This confidence boosted the investment returns from all asset classes, including property, infrastructure and private equity, and helped improve the overall return for our Balanced option.

### Our management of the portfolio

We continued to invest funds in Australian and international shares during the March quarter, as we believe there are still good opportunities for growth in these sectors. And as always, we have been closely monitoring economic conditions and markets and our managers' performances to ensure optimal performance for AustralianSuper members.

### AustralianSuper's Balanced option returns compared to the median Balanced option at 31 December 2010

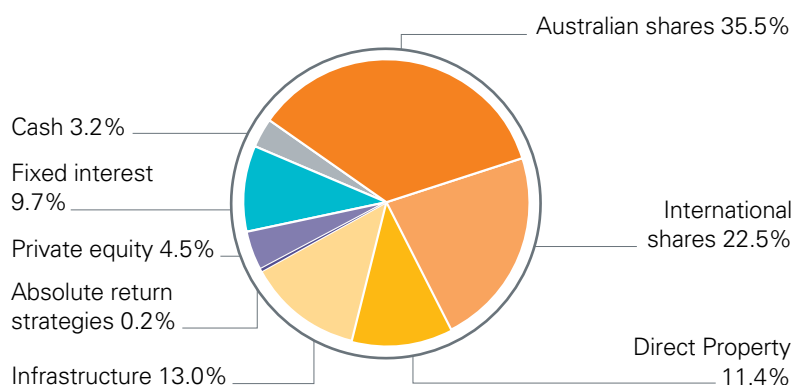


Source: SuperRatings SR50 Median Balanced Option, SuperRatings Fund Crediting Rate Survey, March 2011

### Asset allocation of the Balanced option as at 31 March 2011

The Balanced Option invests in a wide range of investments so members' superannuation savings are exposed to many different types of assets both within Australia and around the world.

The percentage invested in each of the asset sectors in the Balanced Option at the end of March is shown in the graph below.



## How the other sectors of the market performed

### Property

The continuing strength of the local economy is helping to support the performance of the Australian property market and this has resulted in increased values for several properties in our portfolio. We have continued investing in retail property (such as shopping centres) as this has historically been the better performing sector of the property market and it usually outperforms other property sectors when the economy slows.

The performance for our core Property portfolio remained solid during the March quarter, resulting in an investment return of 2.4%, slightly ahead of benchmark. The 12-month return for the portfolio to the end of March was 10.4%, compared to the benchmark return of 10.1%.

### Private equity

Valuations for our Private Equity portfolio continued to improve during the March quarter due to higher earnings and better than expected sale prices for several assets. Returns for private equity assets are now more in line with our long-term expectations for this sector, with our Private Equity portfolio returning 3.4% for the quarter. At the end of March,

the 12-month return for our portfolio was sitting at 12.5%, compared to its benchmark return of 13.5%.

### Infrastructure

The performance of the infrastructure sector continued to improve during the March quarter and our returns were slightly ahead of expectations. The return from our Infrastructure portfolio for the quarter was 3.9%, well ahead of the 1.9% return for its benchmark. In the 12 months to the end of March the portfolio returned 14.3%, compared to its benchmark return of 10.4%.

### Fixed interest

As there are increasing signs economic growth is returning, governments around the world are reducing their economic stimulus measures, with the result that returns from fixed interest assets are slowing. Bond markets are reacting to the fact that better growth prospects bring forward possible interest rate rises by overseas central banks. This is a positive sign as under normal conditions assets like shares traditionally offer investors higher returns than fixed interest.

The shift in investors' attitudes towards fixed interest assets is reflected in the

returns for our Fixed Interest portfolio. Although it achieved a solid 2.2% for the March quarter, this is lower than the unusually high returns achieved during 2010. Our Fixed Interest portfolio's return for the 12 months to the end of March was 10.5%, compared to its benchmark return of 7.1%.

### Cash

During the March quarter the Reserve Bank left interest rates on hold at 4.75%, even though there was some concern about the impact on our economy of the severe flooding in several states and the disasters in Japan.

Our Cash portfolio returned 1.3% in the March quarter, which was slightly above its benchmark of 1.2%. In the 12 months to the end of March it returned 5.3% compared to its benchmark return of 4.9%.

### Currency

The Australian dollar continued to perform strongly against the currencies of other countries, particularly the US. This affected the returns of our International shares investments, but not the returns of our other portfolios, which are hedged against currency movements.

## What does this mean for AustralianSuper members?

Although the natural disasters and political unrest during the March quarter held back returns in many sharemarkets around the world, there were no major falls (other than in the Japanese market), indicating investors remained largely confident about the outlook for the future. This is a very positive message after the uncertainty and concern following the global financial crisis.

The steadily improving performance by asset classes such as infrastructure, private equity and property in the face of sharemarket fluctuations was also a good sign. Several of these sectors are expected to finish the financial year with double-digit returns, which indicates these assets have now reverted to more historical levels of return.

While the high level of the Australian dollar has many positives for the local economy and investment markets, it is making life more difficult for local companies selling goods and services overseas and those which earn income from overseas. We are continuing to monitor the impact of the high Australian dollar on our international investments and the strategies we can use to maximise the positives and minimise the negatives for our members' returns.

### Investment option performance

AustralianSuper investment options performance 31 March 2011

Investment Option	3 Months		1 Year		3 Years pa		5 Years pa	
	ASuper	B'mark	ASuper	B'mark	ASuper	B'mark	ASuper	B'mark
<b>PreMixed Options</b>								
High Growth	2.45%	2.65%	6.64%	5.15%	0.17%	0.41%	2.17%	1.23%
Balanced	2.34%	2.46%	6.87%	5.37%	1.54%	1.26%	3.28%	2.52%
Sustainable Balanced	2.59%	2.46%	5.09%	5.37%	3.01%	1.26%	2.85%	2.52%
Conservative Balanced	2.22%	2.21%	7.76%	5.58%	2.67%	2.20%	–	–
Stable	1.93%	1.86%	6.89%	5.33%	4.75%	3.61%	4.95%	3.75%
Capital Guaranteed	1.21%	0.93%	4.51%	3.71%	4.04%	3.83%	4.50%	4.37%
<b>DIY Options</b>								
Australian Shares	2.52%	2.92%	3.41%	3.15%	2.85%	0.55%	4.15%	2.58%
International Shares	2.80%	2.75%	4.02%	0.13%	-2.71%	-4.31%	-3.20%	-4.88%
Australian Sustainable Shares	2.79%	2.78%	1.56%	2.95%	8.19%	0.45%	4.83%	2.40%
International Sustainable Shares	3.81%	3.14%	0.22%	-0.01%	-5.84%	-4.26%	-6.49%	-5.04%
Property	1.83%	1.78%	9.55%	7.88%	-2.69%	-0.68%	3.91%	5.44%
Australian Fixed Interest	1.68%	1.70%	5.77%	5.69%	5.73%	6.08%	4.41%	4.94%
Diversified Fixed Interest	1.77%	1.20%	8.16%	5.78%	6.86%	6.32%	5.53%	5.40%
International Fixed Interest	1.17%	0.31%	6.47%	5.11%	1.35%	6.00%	3.00%	6.15%
Cash	1.13%	1.12%	4.22%	4.45%	5.07%	4.59%	5.08%	5.17%

#### Footnote

These historical returns are the combined return information from previous ARF and STA investment options. Where only one of the merging funds previously offered an equivalent to an option in the new product suite, the returns of that option have been used. Where both funds offered an equivalent option, combined returns (asset weighted where possible) have been used. Investment returns are not guaranteed as all investments carry some risk. Past performance is no guarantee of future returns.

#### Benchmarks

**High Growth** – SR50 Median Growth Option

**Balanced** – SR50 Median Balanced Option

**Sustainable Balanced** – SR50 Median Balanced Option

**Conservative Balanced** – SR25 Median Conservative Balanced Option

**Stable** – SR50 Median Capital Stable Option

**Capital Guaranteed** – [50% UBSA Composite All Maturities Bond Index + 50% UBSA Bank Bill Index] adjusted for fees and tax

**Australian Shares** – S&P/ASX300 Accumulation Index adjusted for fees and tax

**International Shares** – MSCI AC World ex Australia (in \$A) Index adjusted for fees and tax

**Australian Sustainable Shares** – S&P/ASX300 Accumulation Index adjusted for fees and tax

**International Sustainable Shares** – MSCI World Net Dividend Reinvested Unhedged to \$A adjusted for fees and tax

**Property** – Mercer Unlisted Property Index adjusted for fees and tax

**Australian Fixed Interest** – UBSA Composite All Maturities Bond Index adjusted for fees and tax

**Diversified Fixed Interest** – [50% UBSA Composite All Maturities Bond Index + 50% Barclays Global Aggregate Index hedged in \$A] adjusted for fees and tax

**International Fixed Interest** – Citigroup WGB Hedged Index adjusted for fees and tax

**Cash** – UBSA Bank Bill Index adjusted for fees and tax

If you have any further questions, contact us.

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