31 May 2012

Expanded risk disclosure for AustralianSuper members

AustralianSuper has enhanced its approach to describing the risks of its investment options to better assist members in choosing investment options that are in their best interests.

Our new approach recognises that different members have different objectives and that therefore they face different risks, which will vary depending on their investment timeframe. For example, a 25 year-old is likely to be facing very different risks to a 55 year-old approaching retirement.

AustralianSuper's educational materials about investment choices address two key risks:

- The short-term risk that a member's super savings will be reduced by volatility of investment markets; and
- The long-term risk that a member's super savings will not keep up with inflation

Short-term risks are different to long-term risks

This approach builds on the FSC/ASFA Standard Risk Measure, which applies a single risk level to each investment option, based on how often an investment option is expected to deliver a negative annual return over a 20-year period.

While volatility can be a useful measure for members when comparing investment options over shorter time frames, it can encourage members to make inappropriate investment choices, which could be detrimental to their retirement outcomes over the long term. We believe it is inappropriate to specify a single risk measure for an investment option, because different members have different savings timeframes. Risk is relative and is best defined in terms of a member's ultimate savings objectives and timeframe.

We're encouraging members to take a longer term view with their super and to focus on their timeframe when choosing their investment options, rather than making short-term decisions in response to market conditions.

We have incorporated short, medium and long-term risk labels so members can more easily identify which options suit their timeframe and objectives. The risk levels for each AustralianSuper investment option are shown overleaf.

Information to help members make choices

To help members differentiate between the investment options our educational material also shows members the range of expected returns each of our investment options could provide over different timeframes, based on 90% confidence intervals. This makes the differences between the options more apparent. It also shows members that:

- it's hard to justify investing in cash if you have a long savings timeframe
- time washes away the effects of short-term volatility in returns; and
- over time, potential upsides in investment returns are far greater than potential downsides.

This information is of a general nature and does not take into account your personal objectives, situation or needs. Before making a decision about AustralianSuper, consider your financial requirements and refer to the Product Disclosure Statement (PDS). AustralianSuper Pty Ltd ABN 94 006 457 987 AFSL 233788, Trustee of AustralianSuper ABN 65 714 394 898. Industry SuperFund logo used with permission of Industry Fund Services (IFS). This consent had not been withdrawn at the date of publication.

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Risk levels of AustralianSuper's investment options

	Risk level for the time invested		
	Short - term **If savings are required in 5 years or less**	**Medium term** **If savings are required after 5 to 20 years**	**Long term** **If savings are required after 20 years or more**
PreMixed investment options			
High Growth	High	Medium	Low
Balanced	High	Medium	Low
Sustainable Balanced	High	Medium	Low to Medium
Indexed Diversified	High	Low to Medium	Low
Conservative Balanced	Medium to High	Low to Medium	Low
Stable	Medium	Low to Medium	Low
Capital Guaranteed	Very Low	Medium to High	High
DIY Mix investment options			
Australian Shares	High	Medium	Low to Medium
International Shares	High	Medium	Low to Medium
Australian Sustainable Shares	Very High	Medium	Medium
International Sustainable Shares	Very High	Medium	Medium
Property	Medium	Medium	Medium
Australian Fixed Interest	Medium	Medium	Medium
International Fixed Interest	Low to Medium	Medium to High	High
Diversified Fixed Interest	Low to Medium	Medium to High	High
Cash	Very Low	Medium to High	High

Please see overleaf for information on how the risk levels for each option are determined.

Like to know more?

An example of AustralianSuper's new risk approach is provided in the attached excerpts from draft educational and disclosure materials. Our new risk measures will be included in our Product Disclosure Statements from 22 June and will be supported by comprehensive educational material.

If you'd like to know more about our new risk measures please contact:

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How the risk levels for each investment option are determined

Short term risk level

The short term risk level classifies investment options according to their expected level of volatility. It is calculated by:

- Estimating the probability of an investment option delivering a negative annual return in any one year and multiplying this by 20. This provides an estimate of how often you can expect to receive a negative annual return in any 20 year period.
- These calculations are based on modelling by Rice Warner Actuaries. The model takes into account a wide range of economic and investment market factors including inflation, expected asset class returns; volatilities, skewness and kurtosis of these returns; cross correlations between asset classes and auto-correlation/mean reversion of returns. It is based on and calibrated against Australian and international experience, often going back over 40 years. For unlisted/alternative assets, where historical data is limited, a range of proxy measures are adopted and overlayed with knowledge and judgement to calibrate their return distribution. Returns are net of contributions and earning tax and investment fees.
- Investment options are then categorised into risk levels based on their expected frequency of negative annual returns as follows:

Risk level	Number of negative annual returns over any 20 year period
Very Low	Less than 0.5
Low	0.5 to less than 1
Low to Medium	1 to less than 2
Medium	2 to less than 3
Medium to High	3 to less than 4
High	4 to less than 6
Very High	6 or greater

Medium term risk level

The medium term risk level is intermediate between the short term risk level (as above) and the long term risk level (as below). This reflects the longer period in which to recover from potential market falls and the greater impact of inflation.

Long term risk level

The long term risk level is determined by considering the capacity of investments in each option to produce returns in excess of inflation.

Each option is rated as follows:

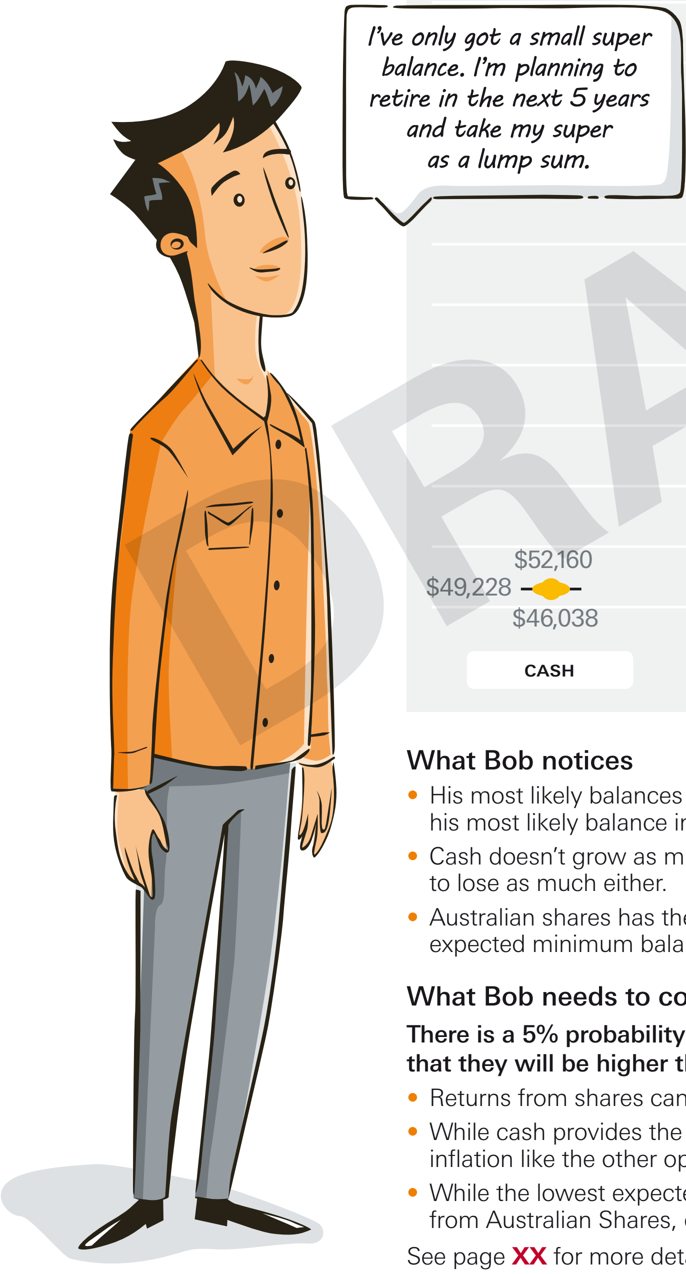
Risk level	Probability of underperforming inflation
Low	<10%
Low to Medium	10% to 18%
Medium	18% to 27%
Medium to High	27% to 35%
High	≥ 35%

Attachment

How risk can impact your super savings over different timeframes

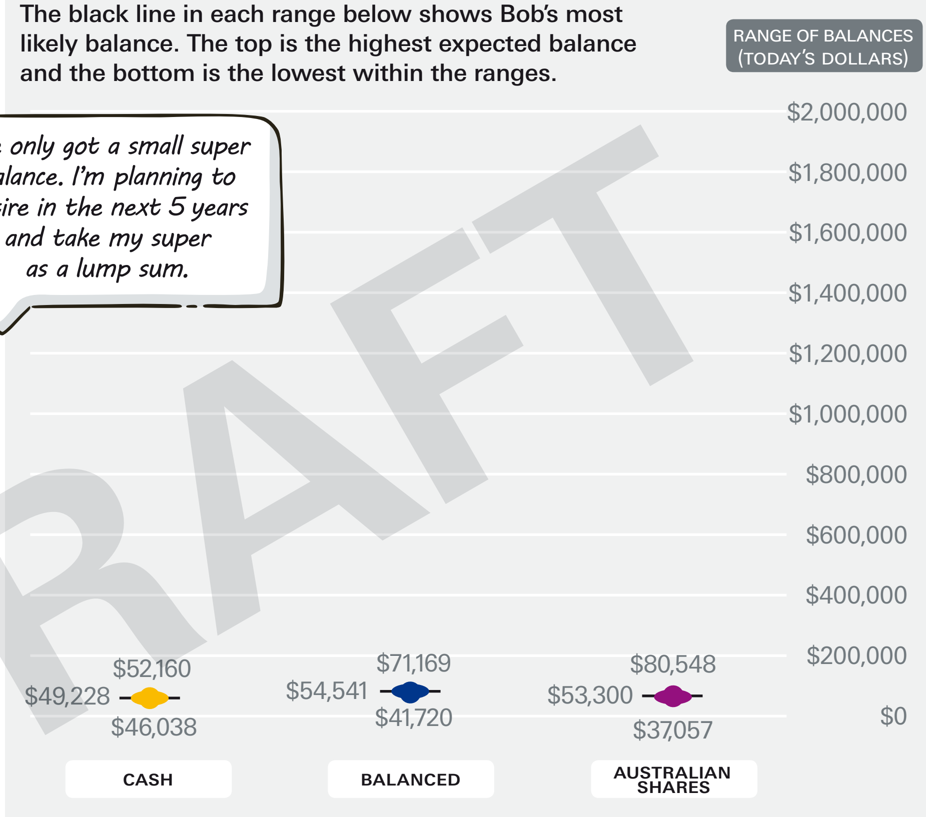
Invested for 5 years

Bob is comparing three of AustralianSuper's investment options to see how much super he could potentially save in each of them. He currently earns $50,000 a year, has a starting balance of $24,000 and concessional contributions of 12% of his pay.



Bob's ranges of potential retirement balances in 5 years

The black line in each range below shows Bob's most likely balance. The top is the highest expected balance and the bottom is the lowest within the ranges.



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What Bob notices

- His most likely balances in the Balanced and Australian Shares option are higher than his most likely balance in the Cash option.
- Cash doesn't grow as much as the other options, but it doesn't have the potential to lose as much either.
- Australian shares has the highest growth potential, but it could provide the lowest expected minimum balance.

What Bob needs to consider

There is a 5% probability that Bob's balances will be lower and a 5% probability that they will be higher than these ranges.

- Returns from shares can go up and down significantly over shorter time frames.
- While cash provides the most stable returns for Bob, it can't increase his super above inflation like the other options.
- While the lowest expected balance from the Balanced option is not as low as the one from Australian Shares, over five years it could still be lower than cash.

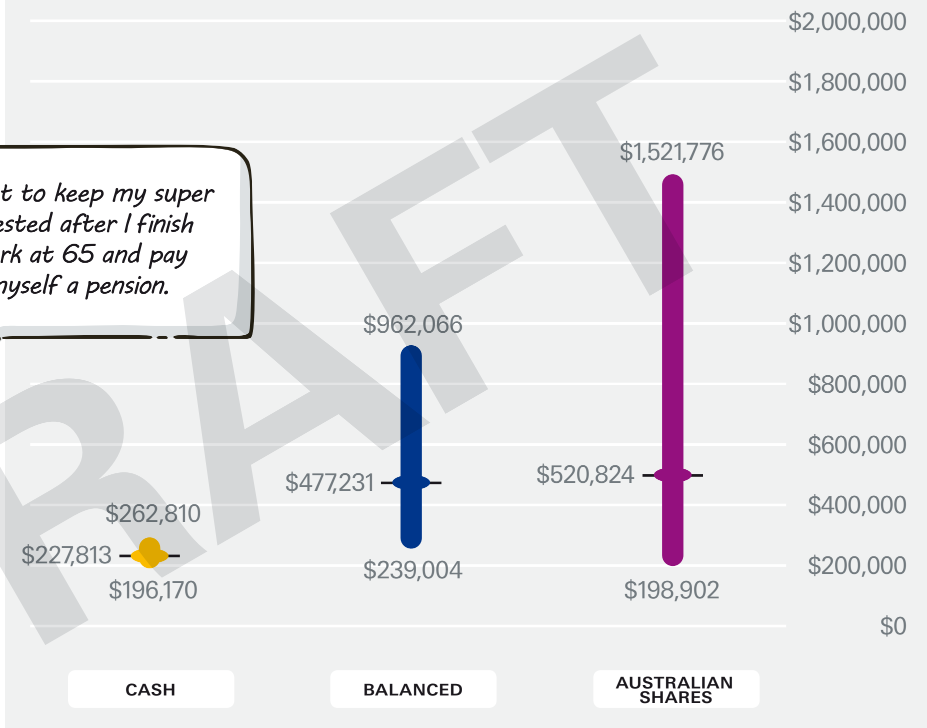
See page XX for more details on how the data in the graph is calculated.

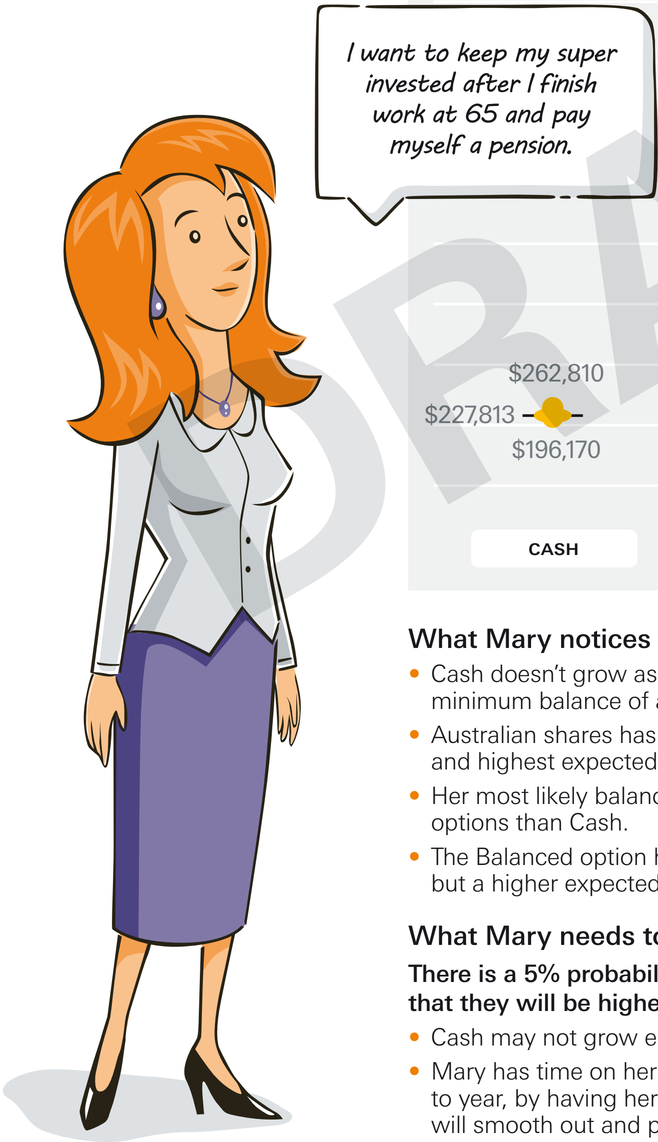
Invested for 40 years

Mary is comparing three of AustralianSuper's investment options over 40 years. She currently earns $50,000 a year and has already saved $24,000 in super. She has concessional contributions of 12% of her pay.

Mary's ranges of potential retirement balances in 40 years

The black line in each range below shows Mary's most likely balance. The top is the highest expected balance and the bottom is the lowest within the ranges.





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What Mary notices

- Cash doesn't grow as much as the other options and it has the lowest expected minimum balance of all options.
- Australian shares has the biggest and highest bar – it has the largest range of returns and highest expected maximum balance.
- Her most likely balance is much higher for the Balanced and Australian Shares options than Cash.
- The Balanced option has a smaller range of balances than Australian Shares, but a higher expected minimum balance.

What Mary needs to consider

There is a 5% probability that Mary's balances will be lower and a 5% probability that they will be higher than these ranges.

- Cash may not grow enough above inflation to meet Mary's retirement income needs.
- Mary has time on her side. While share markets can go up and down from year to year, by having her money invested for 40 years it is likely that the ups and downs will smooth out and provide growth over time.

See page **XX** for more details on how the data in the graph is calculated.

The ranges of potential retirement balances for different investment options change over time

This graph shows the ranges of potential balances a member could achieve from three different investment options over different investment timeframes.

There is a 5% probability that this member's balances will be lower and a 5% probability that they will be higher than the ranges shown.

This member currently earns $50,000 a year and has a starting balance of $24,000 and concessional contributions of 12% of their pay.

About this data

The ranges of balances show the potential outcomes taking into account fluctuating investment earnings which reflect the experience of the different asset classes and economic conditions over the last 40 years. This period includes major boom and bust periods including the 1970s oil shock, the 1987 share market crash and Global Financial Crisis.

The ranges of balances are based on 1,000 possible outcomes for each investment type, rather than specific predictions of future earnings. Where necessary, asset class returns have been adjusted to take into account the characteristics of AustralianSuper's investment portfolios. We have assumed that each PreMixed option is rebalanced to its Strategic Asset Allocation each year. The risk profile of an investment option may change from time to time due to tactical tilts within the portfolio.

Each year the projected balance is discounted for inflation (using wage inflation), which results in a projected account balance valued in today's dollars. The returns are net of contributions and earnings tax and investment fees. Fees are indexed annually to price inflation using the CPI and contributions are indexed to wage inflation.

The projected retirement savings shown in this document are for illustrative purposes and will be different for different members. Your results will depend on your own personal situation, timeframe and chosen investment option/s.

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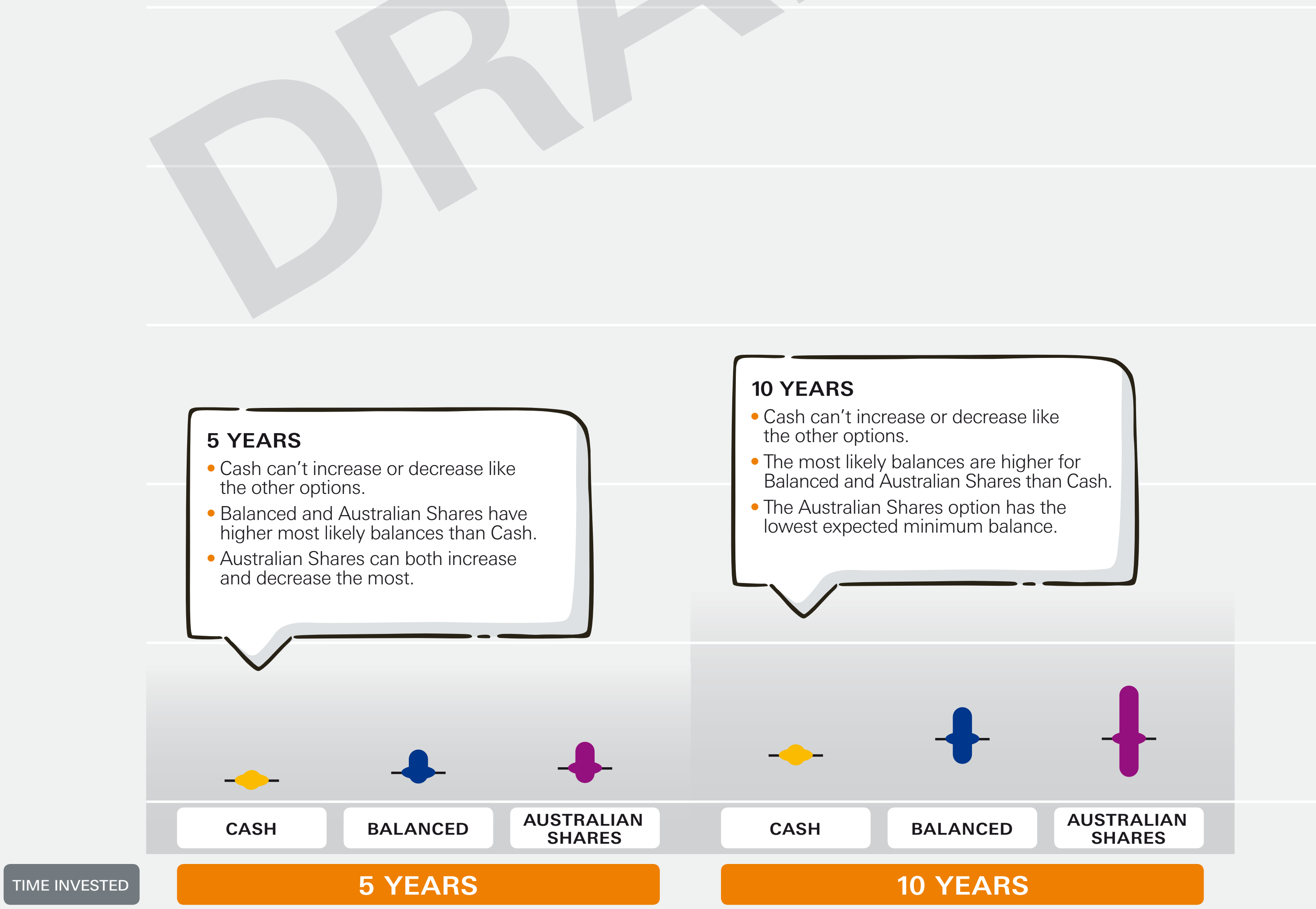
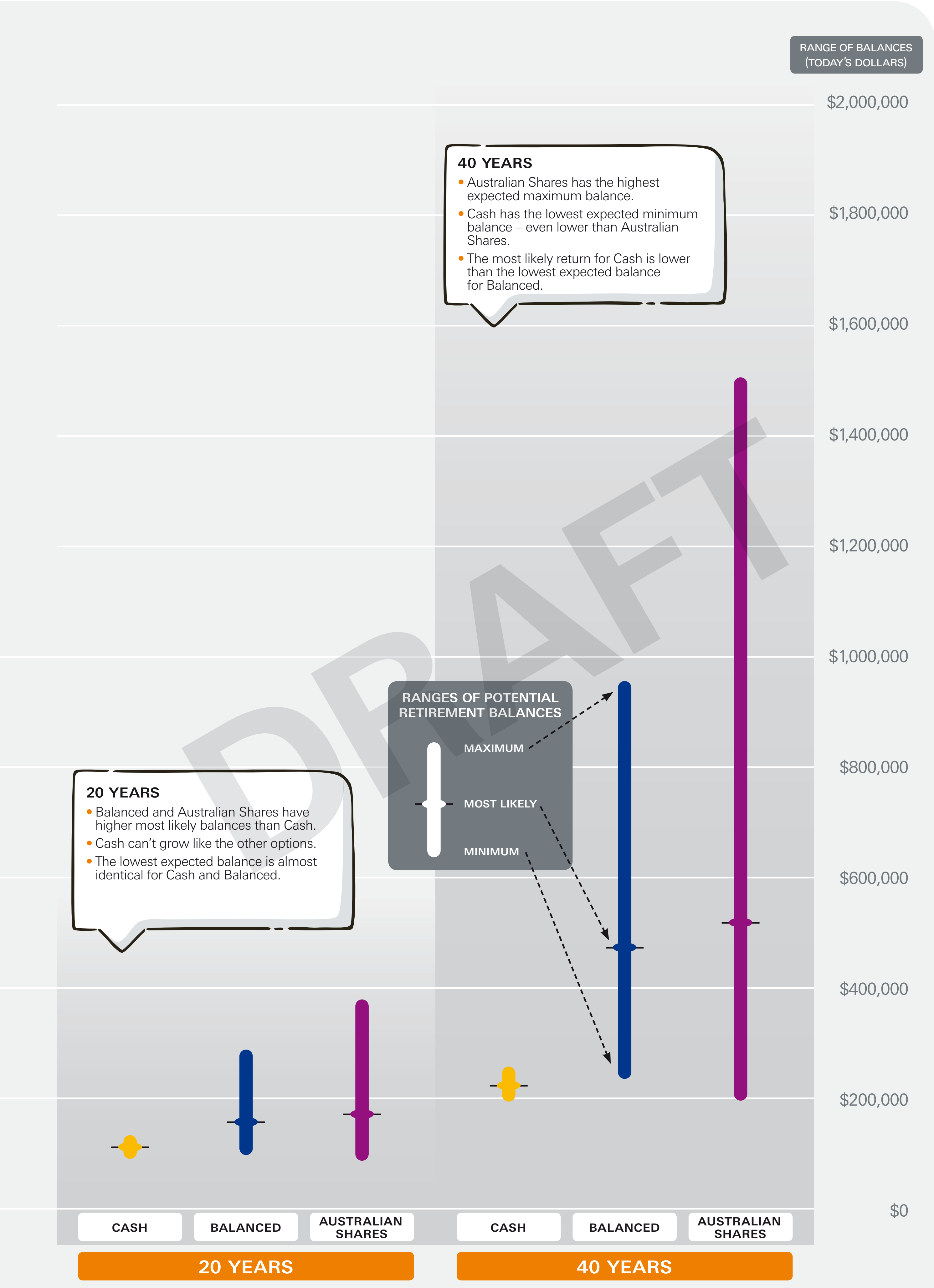




RANGE OF BALANCES (TODAY'S DOLLARS)
$2,000,000
$1,800,000
$1,600,000
$1,400,000
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$0
40 YEARS
• Australian Shares has the highest expected maximum balance.
• Cash has the lowest expected minimum balance – even lower than Australian Shares.
• The most likely return for Cash is lower than the lowest expected balance for Balanced.
20 YEARS
• Balanced and Australian Shares have higher most likely balances than Cash.
• Cash can't grow like the other options.
• The lowest expected balance is almost identical for Cash and Balanced.
RANGES OF POTENTIAL RETIREMENT BALANCES
MAXIMUM
MOST LIKELY
MINIMUM
DRAFT
CASH
BALANCED
AUSTRALIAN SHARES
20 YEARS
CASH
BALANCED
AUSTRALIAN SHARES
40 YEARS

AustralianSuper PreMixed options

Balanced

Description

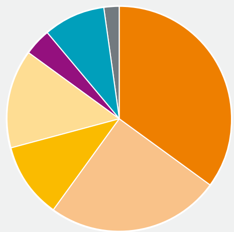
This is our default option if you don’t make an investment choice. It invests in a wide range of assets with a higher allocation to shares, infrastructure and property than fixed interest and cash. It’s designed for members seeking medium to long-term growth who are willing to accept short-term fluctuations in returns.

Investment objectives

To outperform (after fees and tax) the median balanced fund and an average annual return of CPI +4% over the medium to long term*

Investment mix

Strategic asset allocation	Target	Range
Australian shares	35%	20–45%
International shares	25%	10–40%
Direct property	11%	0–30%
Infrastructure	14%	0–30%
Private equity	4%	0–10%
Fixed interest	9%	0–25%
Cash	2%	0–15%
Plus:		
Absolute return strategies		0–10%

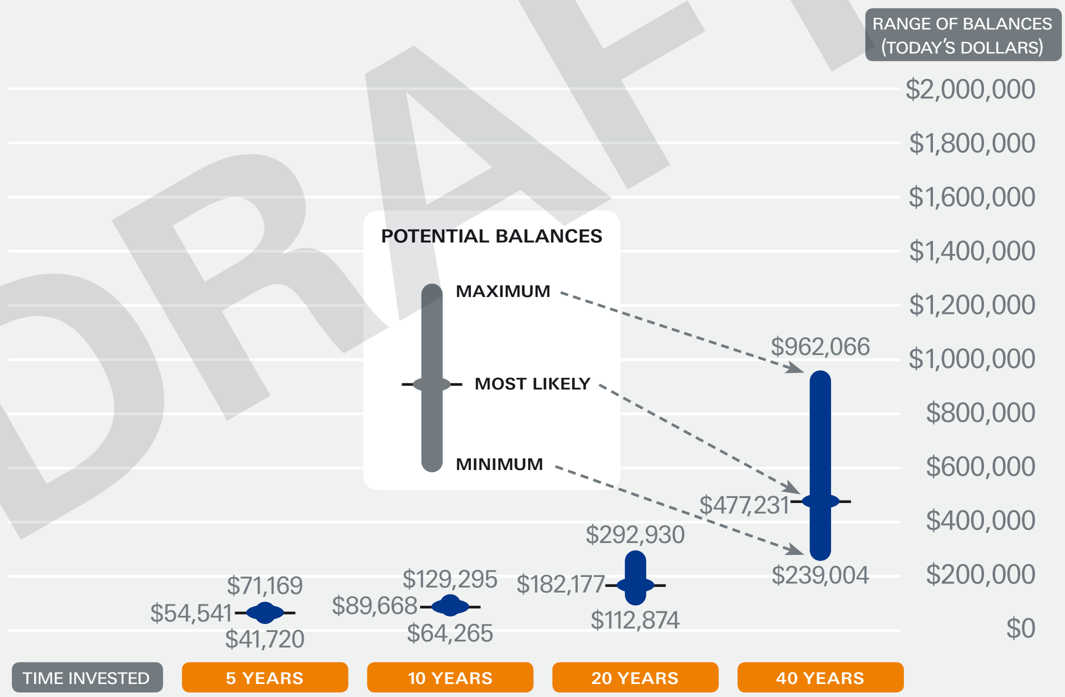


Minimum investment timeframe

5 years plus

Ranges of potential retirement balances

This graph shows the range of potential retirement balances a member investing in this option could expect to achieve over different timeframes. This member earns $50,000 and has a starting balance of $24,000 and contributions of 12%.†



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Risk levels

- Short term risk is the risk that your super savings will be reduced by volatility of investment markets.
- Medium term risk is the combined risk that your super savings will be reduced by volatility or not keep up with or stay ahead of inflation.
- Long term risk is the risk that your super savings will not keep up with or stay ahead of inflation.

Risk level for the time invested	
Short term (If savings are required in 5 years or less)	High
Medium term (If savings are required after 5 to 20 years)	Medium
Long term (If savings are required after 20 years or more)	Low

How often you can expect a negative annual return

Approximately 4 out of every 20 years (4.1)

Investment details for the Balanced option

Description

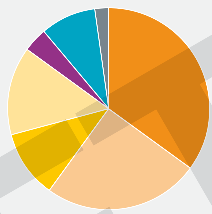
This option invests in a wide range of assets with a higher allocation to shares, infrastructure and property than fixed interest and cash. It's designed for members seeking medium to long term growth who are willing to accept short term fluctuations in returns.

Investment objectives

To outperform (after fees and tax) the median balanced fund and an average annual return of CPI + 4% over the medium to long term.*

Investment mix

Strategic asset allocation	Target	Range
Australian Shares	35%	20–45%
International Shares	25%	10–40%
Infrastructure	14%	0–30%
Direct Property	11%	0–30%
Private Equity	4%	0–10%
Fixed Interest	9%	0–25%
Cash	2%	0–15%



Minimum investment timeframe

5 years plus.

Risk levels

- Short term risk is the risk that your super savings will be reduced by volatility of investment markets.
- Medium term risk is the combined risk that your super savings will be reduced by volatility or not keep up with inflation.
- Long term risk is the risk that your super savings will not keep up with inflation.

Risk level for the time invested

Short term (If savings are required in 5 years or less)	High
Medium term (If savings are required after 5 to 20 years)	Medium
Long term (If savings are required after 20 years or more)	Low

How often you can expect a negative annual return

Approximately 4 out of every 20 years (4.1).

* CPI stands for Consumer Price Index – which is used as a measure of inflation.
Strategic asset allocations and other information are current as at May 2012.

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You should read the important information about our investment options before making a decision. Login to **www.australiansuper.com/RefInvestments** and download the *How we invest your money* fact sheet. This contains information about all of our investment options including the risk and expected returns over different periods of time. The material relating to our investment options may change between the time when you read this Statement and the day when you acquire the product.