



Investment update for Flexi and Term Allocated Pension members, 30 June 2009

Your Pension in perspective

In a year that was generally dominated by bad news for investors, the last three months of the financial year finally gave UniSuper's pension members some positive signs. And although the road is likely to remain bumpy into the foreseeable future, some in the investment community are suggesting that the worst may now be behind us.

The global financial crisis continued to have a negative influence on the world's investment markets throughout the year to 30 June 2009. Members with a UniSuper Flexi or Term Allocated Pension saw the ongoing crisis play out as negative returns and diminished account balances.

But while few would describe the year as good, the news wasn't all bad, especially here in Australia. As at 30 June 2009, the local economy had managed to avoid a recession (technically defined as two consecutive quarters of negative gross domestic product (GDP) growth). Indeed, the Australian economy weathered the global downturn better than most developed economies.

The Australian sharemarket, however, was not immune from losses – it fell by 20.3% over the course of the year. International shares were also weaker, falling 28.4% on a currency hedged basis.

The negative results for global sharemarkets (and for growth assets more broadly) contributed to negative returns for many of UniSuper's investment options. The Cash and Australian Fixed Interest options, which are not invested in growth assets, posted the only positive returns for the year.

Despite the challenging market conditions, most of UniSuper's investment options fared better than their respective benchmarks over the year. This outperformance was aided by strong relative results in UniSuper's Australian shares, alternative investments and property portfolios.

UniSuper also performed well relative to its peers over the year. According to SuperRatings – one of Australia's largest ratings and research companies – UniSuper's High Growth, Balanced, Conservative Balanced and Capital Stable investment options all achieved top quartile performance for 2008/09.

Over the longer term, UniSuper's flagship investment option – the Balanced option – has posted sound results. Returning 5.5% p.a. over the 5-year period to 30 June 2009, the option outperformed its benchmark and delivered first quartile performance in comparison to its peers, according to SuperRatings.

Inside this bulletin, you'll find more information on investment market performance and its impact on your UniSuper pension, as well as detailed performance data for each of UniSuper's investment options.

Keeping a level head and a long-term view

UniSuper is a super fund run by members, for members. With more than 25 years of experience in investment markets and managing members' super and pensions, we've seen plenty of market ups and downs. And while the current financial crisis has been one of the most severe we've seen in recent decades, our philosophy when it comes to dealing with market volatility remains the same: a pension is a long-term investment requiring a long-term approach.

For us, that means managing our portfolios in a way that allows our investments to withstand short-term market downturns and provide solid, long-term results for our members. For members, taking a long-term approach means setting long-term goals for your pension and keeping short-term results in perspective when the going gets tough (and even when the going is exceptionally good).

The year in review

For the second year in a row, the majority of pension members received negative investment returns. This was a direct result of difficult investment conditions, with global sharemarkets experiencing extreme volatility as economies around the world grappled with recession. While Australia avoided a technical recession, it nonetheless experienced a significant downturn.

Towards the end of the financial year, Australian and international sharemarkets experienced positive returns, causing some commentators to suggest that a 'green shoots' recovery was unfolding. But only time will tell if this growth can be sustained.

Shares

Despite Australia avoiding recession, the local sharemarket still experienced significant losses – it fell by 20.3% over the course of the year. The healthcare sector posted the sole positive return for the year, up 0.4%. Materials and energy were major drivers of the drop in Australian equities, falling 33.7% and 23%, respectively. Small companies fell 28.6%.

International shares were also weaker, falling 28.4% on a currency hedged basis. Taking into account the decreased value of the Australian dollar against major currencies over 2008/09, international markets fell 16.2% on an unhedged basis. Emerging markets, too, were not spared the general downturn, recording an unhedged fall of 14.6%.

The chart below paints a picture of the ups and downs on the Australian sharemarket throughout the course of the year. While the first half of the year was characterised by substantial falls, since then there has been some evidence of a gradual climb in asset values, particularly during the final quarter of the 2008/09 financial year.

Cash and fixed interest

At the beginning of the 2008/09 year, domestic cash rates were relatively high (with official rates at 7.25% p.a.). However, rates fell rapidly as central banks around the world responded to the financial crisis by easing monetary policy. By the end of June 2009, cash

rates in Australia had fallen to 3.0% p.a. As a result, returns on cash fell over the year while Australian fixed interest returns were relatively strong.

At the same time, corporate issuers were also under pressure. The result was a substantial increase in bond yields (and consequently losses in bond values) for credit securities. Fortunately, as the year progressed, markets witnessed some improvement in the returns for credit securities.

Despite significant volatility during the period, overall returns were positive. The Australian bond market returned 10.8% for the year, and international bonds returned 10% on a currency hedged basis.

Property

Property markets experienced significant weakness over the year. Unlisted property fell 12.4%, reflecting the impact of ongoing capital market constraints on this sector, as well as deteriorating property income growth expectations and their flow-on effect to property valuations.

Australian listed property fell by 42.1%, largely due to continuing concerns around refinancing risks, discounted equity raisings, distribution cuts, and declining property valuations.

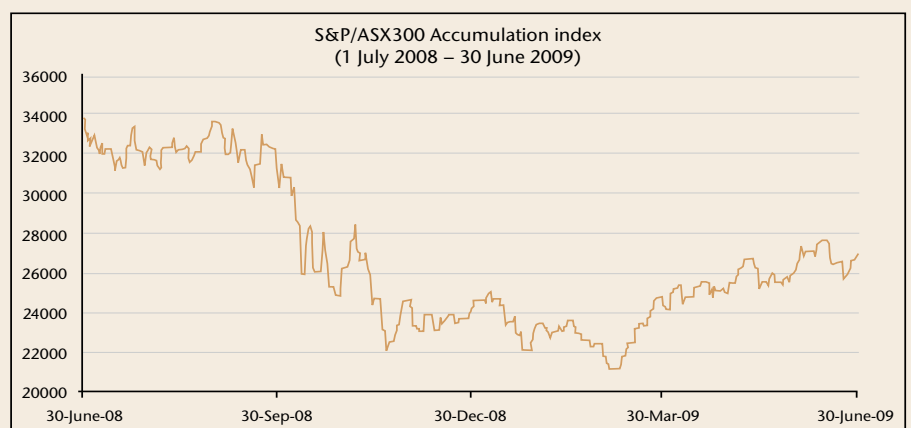
Could the worst be over?

Around the world, many positive steps have been taken to turn the downturn around. Governments launched

A 'green shoots' recovery?

In the three months to 30 June 2009, the Australian sharemarket showed some signs of recovery. Will it last?

Australian sharemarket returns measured by the S&P/ASX 300 Accumulation Index (1 July 2008 – 30 June 2009).



Past performance is not a reliable indicator of future performance.

substantial fiscal stimulus packages (for example, the US recently introduced a US\$787 billion plan to help boost the economy), and reserve banks have cut interest rates in a bid to stimulate activity (at present, the UK, the US and Japan all have official interest rates close to zero).

Encouragingly, some of these measures seem to be having the desired effect. International sharemarkets, as well as our own local sharemarket, posted positive returns just prior to the end of the financial year. At this early stage, however, these positive results should be viewed with restraint. The road ahead is likely to remain fairly uncertain, at least for the foreseeable future.

Your UniSuper Pension account

UniSuper's investment options have not been immune from the negative sentiment and volatility in investment markets. And while the year did end on a brighter note, overall falls mean that unless you were invested in the Cash or Australian Fixed Interest options, your pension account will have experienced negative results for the year. Over the longer term, however, performance remained positive for UniSuper members, with most options returning around 5% p.a. for the last five years on average.

The annual returns for UniSuper's investment options over the last five years to 30 June are shown in the top table (if you are unsure of which option(s) your pension is invested in, this will be shown on your Benefit Statement). The options are listed in order from most defensive (e.g. Cash and Capital Stable) through to those with the highest proportion of growth assets (e.g. High Growth and Socially Responsible High Growth).

Returns in the past two years have clearly suffered when compared with the preceding three years. However, the bottom table shows that, over longer time-frames, the investment options have performed well, with most outpacing both their benchmarks and competitor funds.

Annual investment returns for financial years ending 30 June

UniSuper Pension investment option	2008/09 %	2007/08 %	2006/07 %	2005/06 %	2004/05 %
Pre-Mixed options					
Cash	4.44	5.89	6.68	6.31	6.33
Capital Stable	-1.11	0.18	9.54	8.71	10.76
Conservative Balanced	-5.79	-4.35	12.79	12.25	13.01
Balanced	-10.51	-6.88	16.18	15.68	16.47
Socially Responsible Balanced ¹	-10.93	-10.53	n.a.	n.a.	n.a.
Growth	-14.26	-9.12	18.77	18.67	18.86
Socially Responsible High Growth	-18.78	-17.49	19.60	23.65	17.12
High Growth	-16.42	-11.40	22.05	22.60	18.21
Self-Select options²					
Australian Fixed Interest	11.85	n.a.	n.a.	n.a.	n.a.
Listed Property	-39.46	n.a.	n.a.	n.a.	n.a.
Australian shares	-17.24	n.a.	n.a.	n.a.	n.a.
International shares	-20.94	n.a.	n.a.	n.a.	n.a.

Annualised investment returns for 5 and 7-year periods to 30 June 2009

UniSuper Pension Investment option	5-year annualised returns		7-year annualised returns	
	Crediting rate % p.a.	Benchmark ³ % p.a.	Crediting rate % p.a.	Benchmark ³ % p.a.
Pre-Mixed options				
Cash	5.96	6.13	5.74	5.84
Capital Stable	5.49	5.43	6.34 ⁴	n.a.
Conservative Balanced	5.21	5.01	5.94	5.67
Balanced	5.46	4.64	7.02 ⁴	n.a.
Growth	5.48	4.22	6.37	5.37
Socially Responsible High Growth	3.02	3.44	4.96 ⁴	n.a.
High Growth	5.55	3.64	6.17	4.54

The past performance of an investment option should not be relied upon as an indicator of future performance. Option and benchmark returns are calculated net of investment expenses and fund taxes but are gross of account-based fees. Members should be aware that the returns applied to their account will depend on the investment option(s) they invest in, the period of time they were invested in the option(s) and the timing of cash flows into and out of their account.

¹ The Socially Responsible Balanced investment option commenced on 1 January 2008. The investment return shown for 2007/08 is for the six-month period to 30 June 2008 only. Five and seven-year annualised returns, and the corresponding benchmark and survey median returns, are not available.

² The Self-Select investment options commenced on 1 July 2008, therefore returns for prior financial years are not available. Five and seven-year annualised returns, and the corresponding benchmark and survey median returns, are not available.

³ Details on the relevant benchmarks for each investment option can be found on the UniSuper website (www.unisuper.com.au).

⁴ The Capital Stable, Balanced and Socially Responsible High Growth options do not have seven years of investment return history. The returns shown are taken from the date the options first received contributions (18 October 2002 for Capital Stable, 1 November 2002 for Balanced and 8 November 2002 for Socially Responsible High Growth).

Could your pension do with some TLC?

At UniSuper, it's our job to make sure your investments stay on track and weather this current financial crisis. But what can you do to help your pension stay in shape?

Stay informed

It's understandable that recent financial conditions have been cause for worry and uncertainty. One of the keys to keeping things in perspective and developing a good understanding of markets and your pension is to keep yourself informed.

UniSuper's website contains updates, publications and tutorials to help you learn more about your pension and how to make the most of it. Visit www.unisuper.com.au today and get to know your pension account better.

Seek help if you need it

If you're thinking of changing investment options, or just wondering whether your pension is on the right track, you might want to consider seeking financial advice.

UniSuper Management Pty Ltd can provide finance-related education and pension advice. Call the UniSuper Helpline on 1800 331 685 to find out more.

Financial planning coming soon

Here's something to put in your diary.

In late 2009 UniSuper is planning to launch its very own financial planning service, exclusively for members.

The service will offer a number of options for members, ranging from specific super and pension advice to comprehensive investment plans and life insurance advice. These services will be provided on a highly competitive fee-for-service basis, and UniSuper financial advisers will not receive commissions.

More information will be provided to members prior to the launch, including details about how to contact the UniSuper advice team.



Find out more www.unisuper.com.au enquiry@unisuper.com.au 1800 331 685

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