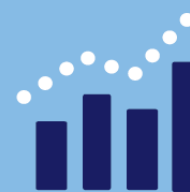


Investment market update



Concerns over the potential need for higher capital requirements in the banking sector continued to weigh on bank shares in May. However, the broader market received enough of a boost from the weaker Australian dollar and lower interest rates to generate a modest positive return overall. In this month's update we explore these movements in more detail and also review the performance of three of our investment options: Australian Equity Income, Global Companies in Asia and Global Environmental Opportunities. All three recently reached their three-year anniversaries.

Performance of key markets

	% CHANGE				
	MONTH	FYTD	1 YEAR	3 YEARS P.A.	5 YEARS P.A.
Australian Shares (ASX 300)	0.4	11.5	9.9	17.0	10.1
US Shares (S&P 500) in US Dollars	1.3	9.5	11.8	19.7	16.5
US Shares (S&P 500) in Australian Dollars	4.3	35.0	35.9	29.5	18.7
Asian Shares (MSCI Asia)	-1.8	10.5	12.5	10.3	6.6
Australian Dollar (AUD/USD)	-2.9	-18.9	-17.7	-7.6	-1.8
Australian Fixed Interest (UBSA Composite)	0.0	6.6	7.5	5.1	6.9
Cash (UBSA Bank Bill)	0.2	2.4	2.6	2.9	3.7
Balanced (MySuper) Option*	1.7	14.1	14.4	15.0	10.6
Australian Equity Income	0.6	14.6	13.6	22.1	n.a.
Global Companies in Asia	3.3	24.4	23.8	21.1	n.a.
Global Environmental Opportunities	4.9	15.7	16.4	23.8	n.a.

Returns are for periods to 31 May 2015. Past performance is not an indication of future performance.

* Returns relate to our Accumulation (not Pension) investment options and are published after fund taxes and investment expenses, other than account-based fees.

[See performance information for all options](#)

Global share prices were broadly stronger in May, with Japan the standout performer, returning more than 5% in the month. In comparison, Australian shares continued to underperform, returning 0.4% in the month. Market concerns over additional regulation in Australia's banking sector (which makes up around 30% of the Australian market) weighed on Australian shares in the early weeks of May before an interest rate cut and weaker Australian dollar helped boost 'industrial' companies (i.e. not resource or finance companies). These gyrations appear minor relative to the bumpy ride experienced by Chinese investors this month. The Chinese market finished 1.9% higher over the month, despite the fact that during the month it was down 7% in a single day!

Three-year anniversary for UniSuper options

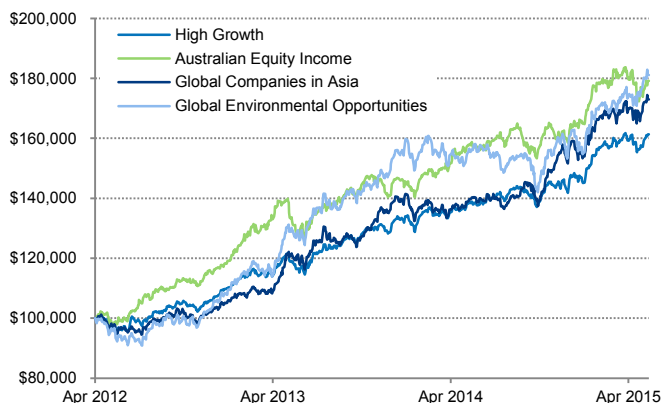
It has now been three years since we launched the [Australian Equity Income](#) ("AEI"), [Global Companies in Asia](#) ("GCA") and [Global Environmental Opportunities](#) ("GEO") investment options. These options, available exclusively to UniSuper members, are relatively unique in the Australian market and have been well supported by members, attracting cash flows approaching half a billion dollars.

While three years is a relatively short period in the context of superannuation investing, this milestone provides a good opportunity to reflect on their performance.

A strong start

The chart below shows the growth of \$100,000 invested in each of the three Accumulation options since their inception to the end of April '15. To help compare, we've also charted the High Growth Option, which is also fully allocated to growth assets.

Relative performance – growth of \$100,000



The options have all experienced strong performance since their launch, exceeding returns of the High Growth Option, which itself is a top quartile performer.

Whether or not these strong returns can continue only time will tell, although we do know with some degree of confidence the conditions under which the options *should* perform well. Here is a summary of the conditions likely to favour each option, discussed in the context of the options' characteristics, regional weightings, and major shareholdings.

Australian Equity Income

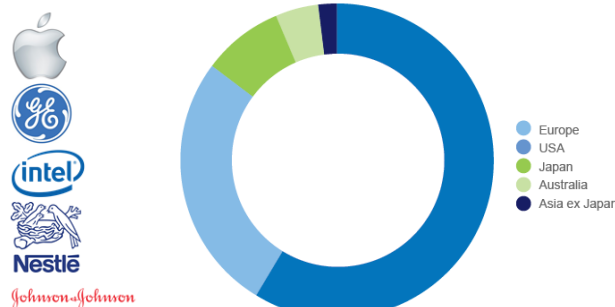


Managed by our in-house investment team, the AEI Option invests in a portfolio of Australian share and income securities constructed to deliver a gross dividend yield (including the benefit of franking credits) in excess of the broader Australian equity market, whilst providing potential for capital growth. Companies are selected on the basis of their financial strength and business fundamentals, and their related ability to deliver sustainable and growing dividends in the future.

Indeed over the past three years the AEI Option has benefited from the high and growing dividends paid by the blue-chip Australian companies held in the portfolio. Furthermore, capital appreciation has been strong, reflecting expectations of healthy future earnings and the market's search for yield outside low yielding defensive assets such as bonds.

The AEI Option is likely to perform well if the search for yield continues, particularly with respect to property, infrastructure, and retail shares. However, a major swing factor will be the performance of the Australian banks, which constitute about 30% of the portfolio. While the banks are returning very healthy fully-franked dividends (currently yielding around 7.5%), their share prices could remain volatile, driven in part by market speculation on regulatory outcomes.

Global Companies in Asia



The GCA Option invests in shares of companies listed in developed markets that derive a meaningful, and growing, proportion of their revenue from emerging Asian consumers; a fast growing global demographic. The portfolio is managed by our in-house investment team utilising quantitative and qualitative methods to filter over 10,000 listed equities to a portfolio of around 75.

Given that GCA's thesis is based on emerging Asian consumers, the Option will typically have a large overweight position to consumer-related and industrial stocks, and at various times to financials and IT-related companies.

UniSuper has a currency hedging policy to actively manage currency risk. As this is a global portfolio, returns will be impacted by the performance of the Australian dollar relative to the currencies of the companies held in the portfolio, particularly the USD given the significant amount of the portfolio invested in US shares (around 60%). The AUD / USD hedge ratio has been quite low in the recent past and is currently

around 15%. With a low currency hedge ratio, all other things being equal, the Option's performance will be boosted by a fall in the Australian dollar.

Global Environmental Opportunities



The GEO Option is a passively managed portfolio that tracks an industry-recognised index which follows companies whose businesses are proactively engaged in improving environmental outcomes. For inclusion, companies must derive a material proportion of revenue from one or more of alternative energy, clean technology, sustainable water, pollution prevention or green buildings.

The GEO Option has gone through periods when country, sector and stock positioning have led to the Option's performance significantly deviating (both positively such as in 2013 and negatively as in 2014) compared to the global equity market. Some of our previous Market Updates cover this, which you can read [here](#).

Relative to typical global portfolios, the GEO Option has a higher exposure to European stocks and an underweight exposure to US stocks, which can be a major driver of relative performance given the often large performance differences we see in those markets. Other factors that will drive large differences in relative performance include the Option's negligible exposure to the resources sector, and being heavily overweight to the industrial and utilities sectors.

As with the GCA Option, the GEO Option's performance will be impacted by currency movements. Again, when the Option has a low hedging ratio as it currently does, performance will be aided by a falling Australian dollar.

Apart from the Option-specific reasons outlined above, it's also important to bear in mind that all of these options are "growth" portfolios with close to 100% of funds invested in listed shares. As such, a rising share market will generally be positive for returns, and vice versa.

Of course, past performance is not an indicator of future performance.

**All values are denominated in AUD unless otherwise noted.*

This is not intended to be an endorsement of any of the listed securities named above for inclusion in personal portfolios and is not a recommendation of how to vote the listed securities named above. The above material reflects UniSuper's view at a particular point in time having regard to factors specific to UniSuper and its overall investment objectives and strategies. Past performance is not an indicator of future performance. This information is of a general nature only and may include general advice. It has been prepared without taking into account your individual objectives, financial situation or needs. UniSuper's investment strategies will not necessarily be appropriate for other investors. Before making any decision in relation to your UniSuper membership, you should consider your personal circumstances, the relevant product disclosure statement for your membership category and whether to consult a licensed financial adviser. This information is current as at 5 June 2015.