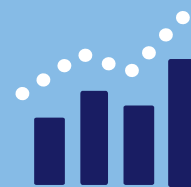


## Investment market update



Despite a number of major geopolitical and economic developments that occurred during the month, major markets were little changed during March aside from the 3 cent increase in the Australian dollar. This month we outline our proposals to further refine our Socially Responsible investment options. Based on member and stakeholder feedback and while retaining their 'best of sector' approach on environmental, social and governance (ESG) issues, we are now planning additional exclusions on alcohol, gaming, weapons and fossil fuels.

### PERFORMANCE OF KEY MARKETS

	MONTH	FYTD	% CHANGE		
			1 YEAR	3 YEARS P.A.	5 YEARS P.A.
Australian Shares (ASX 300)	0.2	16.3	13.0	8.1	13.2
US Shares (S&P 500) in US Dollars	0.8	18.4	21.9	14.7	21.2
US Shares (S&P 500) in Australian Dollars	-2.6	16.9	36.9	18.9	14.4
Asian Shares (MSCI Asia)	0.4	6.7	1.9	-0.3	11.9
Australian Dollar (AUD/USD)	3.6	1.3	-11.0	-3.6	5.9
Australian Fixed Interest (UBSA Composite)	0.0	2.9	3.3	6.7	6.0
Cash (UBSA Bank Bill)	0.2	2.0	2.8	3.7	3.9
<b>Balanced option*</b>	<b>-0.4</b>	<b>11.0</b>	<b>13.3</b>	<b>9.1</b>	<b>10.3</b>

Returns are for periods to 28 February 2014. 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 on all options](#)

### Markets up, down, and back to where they started

March was marked by a number of major geopolitical and economic developments that at any other time might have been expected to cause major market moves. Tensions between Russia and the West waxed and waned after the former invaded the Crimean peninsula.

There was a small but high-profile bond default in China at a time when the market is concerned about credit issues there. Chinese authorities continued to depreciate the Renminbi amid concerns of slowing growth and the US Federal Reserve signalled intent to tighten monetary policy more quickly despite a string of weaker economic data, which is understandable given the impact of unseasonably cold weather.

In spite of all of this, the market response was quite muted. Major share markets (particularly in US and Australia) didn't change much over the month and bond yields ended the month only marginally higher. Even in iron ore markets (Australia's largest export commodity and a major driver of resource shares), there was a lot of volatility with little overall net change. Prices were down more than 10% at one stage before rebounding.

Indeed from an Australian investor's perspective, a 3c increase in the AUD was the only meaningful and lasting market move during the month after Reserve Bank of Australia (RBA) Governor Glenn Stevens stepped back from his recent strategy of actively talking down the currency.

## Changes to our Socially Responsible (SR) investment options

UniSuper offers two SR options ([Balanced](#) and [High Growth](#)). Total assets of the options are currently \$1.4 billion and steadily growing.

Members invested in at least one of our SR options were recently notified of portfolio changes that we intend to implement, with respect to these options only. The correspondence has managed to find itself into various media reports and some of the reporting was less than accurate.

Therefore, we figure it's timely to remind all members of our approach to environmental, social, and governance (ESG) issues when investing.

Hopefully this will provide the context in which the changes have been made to the SR options.

### OUR APPROACH TO ESG ISSUES IN INVESTMENTS

In summary, across **all** of our investments we seek to:

- Be an active share owner, which includes engaging with the companies that we invest in and exercising our proxy votes at company meetings.
- Where possible and appropriate, integrate consideration of ESG issues within our investment processes. This includes identifying, managing and where possible mitigating ESG risks.
- Where appropriate, collaborate with other investors on ESG related matters.

In doing so, we are at all times bound by the fiduciary duties imposed upon us at law, namely, to act in our members' best financial interests and for the sole purpose of providing the best possible retirement outcome for our members.

For this reason, we cannot make investment decisions solely for moral or ethical reasons or to specifically drive social or environmental outcomes, without consideration of the investment and financial implications.

Therefore, we cannot arbitrarily include or exclude certain assets without having a coherent investment thesis. An investment thesis typically involves assessing probabilities of outcomes, including magnitude and timing of consequences. This becomes very problematic when dealing with complicated issues such as climate change.

If you would like a bit more information on our approach to ESG, you can watch our recent investment update [webinar](#) where our Manager, Governance and Sustainable Investment, Talieh Williams, covers this in more detail.

### CATERING FOR SPECIFIC MEMBER REQUIREMENTS

Despite the general constraints mentioned above, we do recognise that we have approx. 450,000 members with a diverse range of personal values and beliefs. While we cannot cost-effectively offer each member an investment option specifically tailored to their individual views, we do seek to provide a sufficiently diverse range of options that cater to the vast majority of our membership.

The regulatory framework permits us to offer specifically tailored investment options that members can choose at their discretion. So we offer two SR options and a [Global Environmental Opportunities](#) option to cater to those members who want exposure to investment strategies that focus heavily on social and / or environmental matters.

Members also have the ability to select certain options that, by their very nature, have low or zero exposure to certain industries. For example, the [Cash](#), [Australian Bond](#), and [Listed Property](#) options do not own any companies that are directly involved in extraction or distribution of fossil fuels.

### PROPOSED CHANGES TO THE SR OPTIONS

The SR options currently adopt a 'best of sector' approach to company selection. This means that all sectors (including mining, gaming, etc.) are included in the portfolios, and the companies that ultimately get into the portfolio are considered to be the best in their sector for their consideration and management of social and environmental issues.

Over time many of our members in the SR options have made it very clear that the current approach falls short of what they consider to be socially responsible investing. Together with general member feedback we have also met with key stakeholders and thought leaders in this space, to help refine our SR strategies.

Following feedback and consultation we are now planning to exclude alcohol, gaming, weapons and fossil fuels from our SR options, while still retaining a 'best of sector' approach. Our SR options have never included tobacco.

In constructing the new portfolios we will also be making some asset allocation changes to ensure that they remain sufficiently diversified, and continue to target similar risk and return outcomes.

The response we have received since writing to our SR members has been overwhelmingly positive. Indeed a number of members expressed surprise that the SR options included exposure to these industries in the first place.

Unfortunately some of the press reports were misleading. For example, the headline of one publication read:

*“A major Australian superannuation fund has deemed fossil fuels to be ‘socially unacceptable’, and will no longer make investments in that direction.”*

In changing the composition of the SR options we were certainly **not** making any statement about the social unacceptability of fossil fuels. These are changes made exclusively to the SR options based on what we consider to be the desired exposure of the members in those options.

Of course there were also a small number of members who were unhappy with the changes, and there are some who feel that we haven’t gone far enough.

In dealing with such a subjective matter it will be impossible to keep everyone happy. Judgement will need to be exercised, taking into account the wishes of the majority of members together with pure investment considerations.

One of the important things to bear in mind is that most UniSuper members have the flexibility to switch investment options if the end result is not to their satisfaction.

---

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 7 April 2014. Information is subject to change. To the extent that this fact sheet contains information which is inconsistent with the UniSuper Trust Deed and Regulations (together the Trust Deed), the Trust Deed will prevail.

This is not intended to be an endorsement of any of the listed securities named above for inclusion in personal portfolios. 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.

Issued by: UniSuper Management Pty Ltd ABN 91 006 961 799, AFSL No. 235907 on behalf of UniSuper Limited the trustee of UniSuper, Level 35, 385 Bourke Street, Melbourne Vic 3000.

Fund: UniSuper, ABN 91 385 943 850

Trustee: UniSuper Limited, ABN 54 006 027 121

Date: April 2014

[www.unisuper.com.au/investments](http://www.unisuper.com.au/investments)