

Investment Update

QUARTER ENDING 31 DECEMBER 2011

Your Employer Financed Benefit in the APSS cannot reduce in value

Your super in the APSS Employer-Financed Defined Benefit is not affected by rises and falls in financial markets. This is because the formula used to calculate your superannuation benefit is based on your Final Average Salary and years of service and does not incorporate investment returns or values. The investment risk (i.e. the risk of low, variable or negative investment returns) is borne by your employer and not you as a Member.

Can I earn decent investment returns in difficult economic times?

Economic growth is normally considered to be good for investment returns. The argument goes that economic expansion should translate to business expansion and higher profits, making shares in those businesses worth more. The same goes for real estate and other assets that depend on employment and consumer demand.

In difficult economic times investors can lose confidence in the value of their investments and may switch to safe options like cash. This often drives down the value of shares and real estate, so that their fears become self-fulfilling.

But difficult economic times also offer the chance to buy assets cheaply and, with patience, enjoy the gains when their value recovers. Some of the APSS's private market fund managers even specialise in buying under-performing companies for a low price and turning the business around.

An innovative company may also grow by winning business away from its competitors without needing the economy to grow. A number of the APSS's private market funds specialise in buying new business ventures that are bringing new products and services to the market.

Investing in difficult economic times requires patience and fortitude but can deliver long-term rewards.

Your APSS Member Savings

Compound Crediting Rates to 31 December 2011

		3 months	12 months	3 years (p.a.)
Employee and Spouse Member Savings	Market Return	2.7%	11.9%	-3.6%
	Cash Return	1.0%	4.1%	3.6%
APSS Rollover	Market Return	2.7%	11.9%	-3.6%
	Cash Return	1.0%	4.1%	Refer below*
APSS Pension	Market Return	3.2%	14.4%	-3.6%
	Cash Return	1.2%	4.9%	Refer below*

The Crediting Rates shown above are after tax and investment costs. Pension Members do not incur tax on investment earnings of their pension accounts. Crediting Rates in the APSS are updated fortnightly on the *Crediting Rates* page of apss.com.au.

*APSS Rollover and Pension cash Return Crediting Rates are available from 5 August 2009.

Important reminder: Past investment returns are not necessarily indicative of future investment returns.

Behind the numbers

Market Return Crediting Rates

The Market Return Crediting Rate for the December quarter was positive, completing a profitable calendar year for Market Return Member Savings.

Market Return Crediting Rates are based on the returns earned by the APSS Market Return Portfolio. Virtually all of the quarter's gain came from the APSS's private market investments, which form the majority of the Market Return Portfolio. Public market shares and bonds form a smaller proportion of the portfolio.

Financial markets were kept in suspense through the December quarter as Europe's debt crisis unfolded. The choices facing the European Union are difficult. In a number of countries, the levels of government debt are unsustainable, yet austerity programs designed to reduce debt raise the risk of severe recession and social hardship across the region. Not surprisingly, a politically-acceptable solution to the crisis has been slow to emerge.

The crisis in Europe has not had a large impact on the APSS Market Return Portfolio to date. Public market share prices have been volatile, but form a relatively small part of the portfolio. The APSS's private market investments tend to be less volatile than public market shares. So, while public market share prices dropped by 10 to 15% in the September quarter, before rising again in October, the APSS's private market investments maintained a relatively stable average value through the second half of last year.

The Australian dollar has also been more volatile than normal, causing fluctuations in the value of the APSS's overseas investments. The APSS has currency risk management arrangements in place that have limited the effect of exchange rate movements on Crediting Rates.

After the global financial crisis, the general consensus among economic commentators was that the world economy would undergo a slow recovery with some setbacks from time to time. The events in 2011 and outlook at the start of 2012 seem to bear this out. As we discuss in the text box on the left, difficult economic times are not necessarily bad for investment, provided that a long-term view is taken.

Cash Return Crediting Rates

Cash Return Crediting Rates are based on the returns earned by the APSS Cash Portfolio, which is invested in high quality bank-issued cash securities that yield interest rates close to the official cash interest rate. Other than for APSS Pension accounts, Crediting Rates are after the 15% tax rate on superannuation earnings.

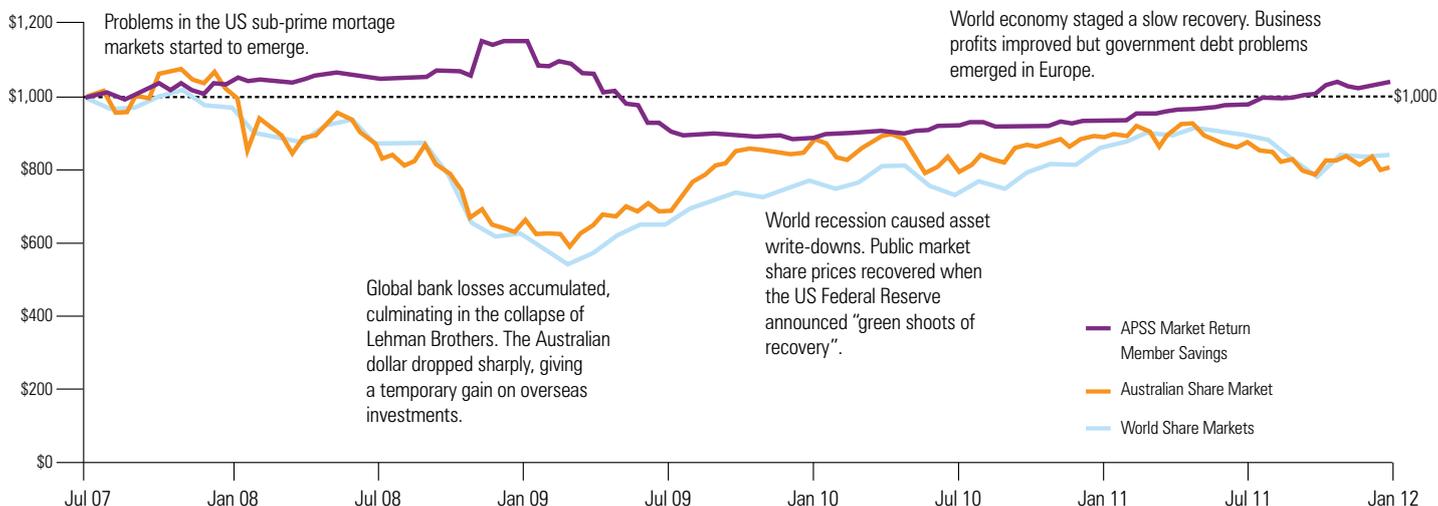
The Reserve Bank of Australia cut the official cash rate by a quarter of a percent in November and again in December, bringing it down from 4.75% per annum at the start of the quarter to 4.25% per annum at the end.

Remember, Cash Return Member Savings are protected by a Capital Guarantee and Cash Return Crediting Rates cannot be negative.

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The chart below shows how \$1,000 in APSS Market Return Member Savings would have changed in value since the inception of the current APSS Member Savings arrangements on 1 July 2007 compared to the same amount invested in publicly-traded Australian and overseas share markets. Through this particularly difficult period for investors, Market Return Member Savings have been significantly less volatile than an equivalent investment in Australian or overseas share market would have been.



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Your investment choices in APSS Member Savings

The APSS offers choices between Market Return Member Savings, Cash Return Member Savings or a blend of the two in a proportion that fits with your long-term financial goals. The Crediting Rates of both savings options are determined with reference to the investment returns of the relevant underlying APSS portfolio of assets.

Virtually all investments carry some risk and it is important to understand the differences between the two available choices.

Market Return Portfolio – invested in a broad range of highly diversified shares, real estate and bonds comprising both listed (public) and unlisted (private) global assets. It has a higher relative risk than the Cash Return Portfolio with an expectation of higher returns over the longer term. APSS adopts strategies to reduce the impact of volatility of financial market and currency movements.

Cash Return Portfolio – invested in high-quality cash deposits or bills and short-term interest bearing securities. This option provides Members with relatively low risk, capital guaranteed investments, with an expectation of lower relative returns.

Investment Switching

The APSS allows you to switch between Market Return Member Savings and Cash Return Member Savings. A decision to switch needs to be made with care and with an understanding that investment returns can be unpredictable. You may have a good reason to switch, such as a change in your personal savings goals or your investment time horizon. However, deciding to switch after observing a high or low Crediting Rate, or because you expect the next few Crediting Rates to be high or low, can reduce the value of your Member Savings in the long-term if you get the timing wrong.

Do you need help?

Decisions about a long-term investment such as superannuation can be complex.

Any decision you make should also take into account your full personal financial circumstances and objectives, risk tolerance and investment timeframe.

Our Member Services Representatives cannot give you financial advice or make recommendations about your super, so you may like to consider contacting an independent licensed financial planner.

Keep in touch

Please visit apss.com.au or call Superphone on 1300 360 373 to speak to a member of our dedicated APSS Member services team.

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Important note: All investments carry risk and may rise or fall. International investing involves additional risks, including the risk of currency fluctuations. Diversification does not ensure a profit or protect against a loss in a declining market. Past performance is no guarantee of future returns or Crediting Rates. APSS's Crediting Rates are calculated fortnightly and are published on apss.com.au. The information contained in this publication is of a general nature, is not intended to be financial product advice and does not take your personal financial circumstances into account. Before acting on any information contained in this document you should first consider its appropriateness of your own financial circumstances. If you have any doubt or require further assistance you may wish to seek the advice of a professional financial adviser. The APSS trustee does not hold an Australian Financial Services Licence and therefore is unable to provide you with financial product advice or guidance on your investment in the APSS.

