

# Investment Update

QUARTER ENDING 31 MARCH 2012

## Your Employer-Financed Benefit in the APSS cannot reduce in value.

Your 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. 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.

## Why does the APSS invest in private markets?

The APSS Market Return Portfolio has significantly more invested in private markets than in publicly-traded shares and bonds. This sets it apart from other super funds, which tend to have larger amounts allocated to publicly-traded shares.

Why is this? Put simply, the APSS Trustee adopted the view several years ago that private market investments can deliver sound long-term returns with less volatility in their value than publicly-traded shares. Over the past few financially turbulent years, the APSS's private market investments have proven to be less volatile than publicly-traded shares. However, the average returns on both publicly-traded shares and private market investments have suffered from the effects of the global financial crisis.

Lately, more super funds have turned to alternative asset classes, including private markets, to reduce over-concentrations in publicly-traded shares and find new sources of return. But building up a private market portfolio requires time, patience and great care. As a long-term investor in private markets, the APSS already has a well-established and diversified private market portfolio. The prospects remain for it to contribute positively to Market Return Member Savings in future.

## Your APSS Member Savings

Cumulative crediting rates to 31 March 2012

		Quarter	12 months	3 years (p.a.)
<b>Employee and Spouse Member Savings</b>	Market Return	-1.0%	8.0%	-1.2%
	Cash Return	0.9%	4.1%	3.6%
<b>APSS Rollover</b>	Market Return	-1.0%	8.0%	-1.2%
	Cash Return	0.9%	4.1%	n/a*
<b>APSS Pension</b>	Market Return	-0.9%	9.5%	-0.8%
	Cash Return	1.1%	4.8%	n/a*

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](http://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 cumulative crediting rate for Market Return Member Savings was negative over the March quarter. This has offset some but not all of the positive return achieved over the past 12 months.

Market Return crediting rates are based on the returns earned by the APSS Market Return Portfolio. The majority of the Market Return Portfolio consists of private market investments, with the remainder in publicly-traded shares and bonds.

The negative result for the quarter came entirely from unfavourable currency movements, which affected the value of the APSS's overseas private market investments. Other than the currency impact, the value of the private market investments stayed about the same over the quarter. The APSS's public market investments contributed a small gain.

Europe's debt crisis stabilised in the March quarter, at least temporarily, with the provision of emergency funding to Greece and a European Union agreement to support the banking system.

Beyond the debt problems in Greece and other European countries, the world's developed economies appear to be recovering slowly from the global financial crisis. In the United States, recent employment trends and industrial output data have been encouraging.

Growth in China and other developing countries has slowed since the middle of 2011 but still remains high. The inflationary pressures that were causing concern for these economies in 2011 have eased for the time being.

With the improved economic news in the March quarter, publicly-traded share prices increased around the world by around 11% on average\*. To understand why the APSS's private market investments stayed flat when publicly-traded share prices rose, we must look back to the latter months of 2011. Publicly-traded share prices fell sharply in August and September last year when Europe's debt crisis intensified. The recent rally has, by and large, restored publicly-traded share prices to their early 2011 levels. By comparison, the APSS's private market investments have maintained their value through this volatile period, apart from currency-related fluctuations.

\*Measured by the MSCI World Index

### 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.

The Reserve Bank of Australia has held the official cash rate at 4.25% per annum, at its last three (monthly) meetings.

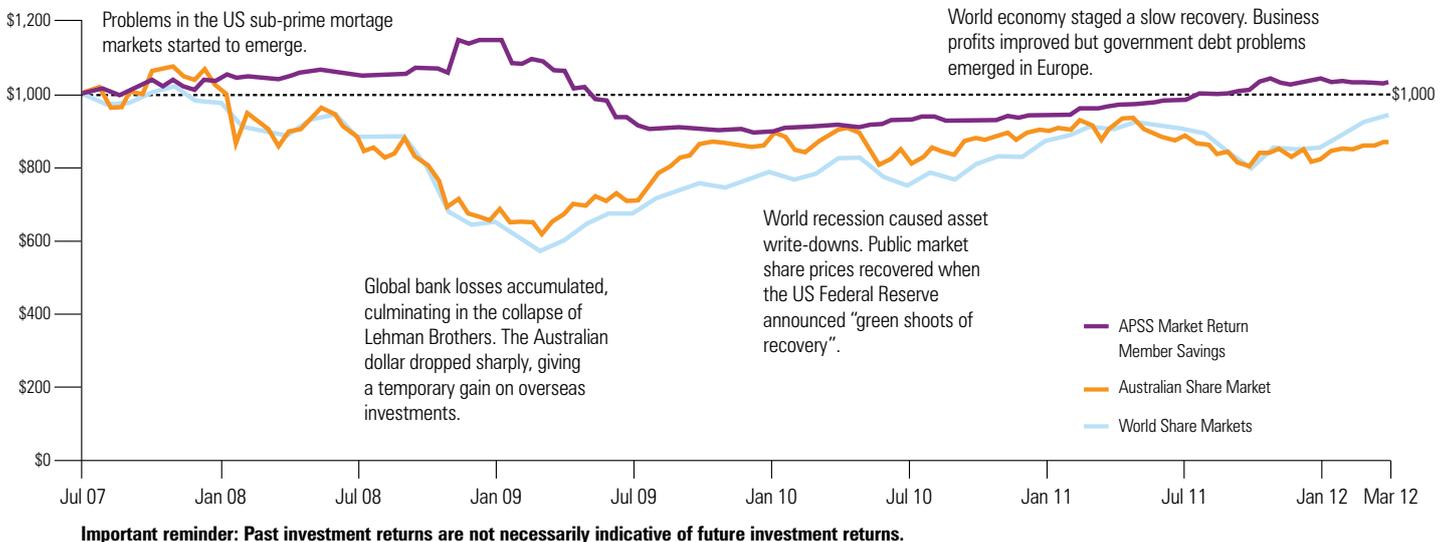
When comparing this rate to the APSS Cash Return crediting rates remember that, with the exception of APSS Pension accounts, the APSS crediting rates are after the 15% tax rate on superannuation earnings has been deducted.

Remember, Cash Return crediting rates cannot be negative because they are protected by a Capital Guarantee provided by Australia Post.

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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 what was a particularly difficult period for investors, Market Return Member Savings have been significantly less volatile than an equivalent investment in Australian or overseas share markets would have been.



## Your investment choices in APSS Member Savings

The APSS offers choice 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 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 shares, real estate and bonds comprising both listed (public) and unlisted (private) global assets. It has a higher relative risk and volatility than the Cash Return Portfolio with an expectation of higher returns over the long term. The APSS adopts strategies that seek 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, and no negative crediting rates, but with an expectation of lower relative returns.

### Investment Switching

During periods of uncertain economic and financial market outcomes, you may be tempted to switch from a higher risk or more volatile investment option to a "safer" or less risky investment, such as cash.

Investment markets can be unpredictable and switching investments means you have to get two important and difficult decisions right each time you switch: when to switch out and when to switch back in. You may miss the recovery completely and have to pay a higher price to get back in, thereby potentially eroding your superannuation benefit.

### Do you need help?

Decisions about a long-term investment such as superannuation are complex and require careful consideration of all of the possible outcomes and consequences.

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

Whilst our *SuperPhone* member services representatives cannot give you financial advice or make recommendations about your super, you may want to consider contacting an independent licensed financial planner. For help with this, you can visit the Financial Planning Association of Australia on [www.fpa.asn.au](http://www.fpa.asn.au)

### Keep in touch

Please visit [apss.com.au](http://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](http://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.