

# Investment Update

QUARTER ENDING 30 SEPTEMBER 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, not you as a Member.

### How do currency movements affect Crediting Rates?

The APSS Market Return Portfolio is invested in markets around the world as well as in Australia. The value of overseas investments can be affected by currency movements – changes in the exchange rate between the Australian dollar and overseas currencies like the US dollar and Euro.

When the Australian dollar rises in value relative to overseas currencies, the value of overseas investments will fall when measured in Australian dollars. The Australian dollar has risen for most of the past year.

But when the Australian dollar falls, the value of overseas investments will rise.

The APSS has currency “hedging” arrangements in place that are designed to limit the negative impact on its overseas investments if the Australian dollar rises in value.

If the Australian dollar devalues, as it did in the September quarter, the hedging arrangements can be quickly scaled back to gain the benefits of higher overseas currencies.

## Your APSS Member Savings

Compound Crediting Rate returns to 30 September 2011

		3 months	12 months	3 years (p.a.)
<b>Employee and Spouse Member Savings</b>	Market Return	3.9%	10.8%	-2.0%
	Cash Return	1.1%	4.1%	3.7%
<b>APSS Rollover</b>	Market Return	3.9%	10.8%	-2.0%
	Cash Return	1.1%	4.1%	Refer below*
<b>APSS Pension</b>	Market Return	4.3%	13.2%	-1.9%
	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](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 Market Return Crediting Rate for the September quarter was positive in contrast to a sharp decline in publicly-traded share prices.

Market Return Crediting Rates are based on the returns earned by the APSS Market Return Portfolio, which has a relatively small percentage invested in publicly-traded shares. The majority of the Market Return Portfolio is invested in private market investments. It also has an allocation to publicly-traded government bonds.

Pessimism took hold in global investment markets in August when political indecision over government debt management in the US and European economies raised concerns that the global economic recovery may go into reverse.

Public market share prices fluctuated widely through August and September, ending 10-15% down on average for the quarter in Australia and the major international markets.

Despite all the recent attention on sovereign debt risk, capital flowed into government bonds, driving their values up.

The public market share volatility had a minor negative effect on the APSS Market Return Portfolio. Larger, positive contributions to value in the quarter came from gains on the APSS's private market investments and government bonds.

Private market investments are not immune from changes in economic conditions but are less prone to short-term fluctuations in value than public market shares.

A large proportion of the private market gains came from the devaluation of the Australian dollar. It fell by 9% against the US dollar and even fell against the crisis-affected Euro. For more about how currency movements affect Crediting Rates, see the text box at the far left.

Besides the effects of currency fluctuations, the APSS's public market investments have had steady gains in value since the market downturn in 2008-2009. The APSS's private market funds remain generally optimistic about the long-term value that private companies can deliver to investors by continuing commercial innovation and disciplined financial management.

### Cash Return Crediting Rates

The 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 official cash rate remained unchanged at 4.75% per annum throughout the September quarter. Other than for APSS Pension accounts, Crediting Rates are after the 15% tax rate on superannuation earnings. This reduces the current cash rate from 4.75% per annum before tax to about 4.0% per annum after-tax, or 1.0% per quarter after tax.

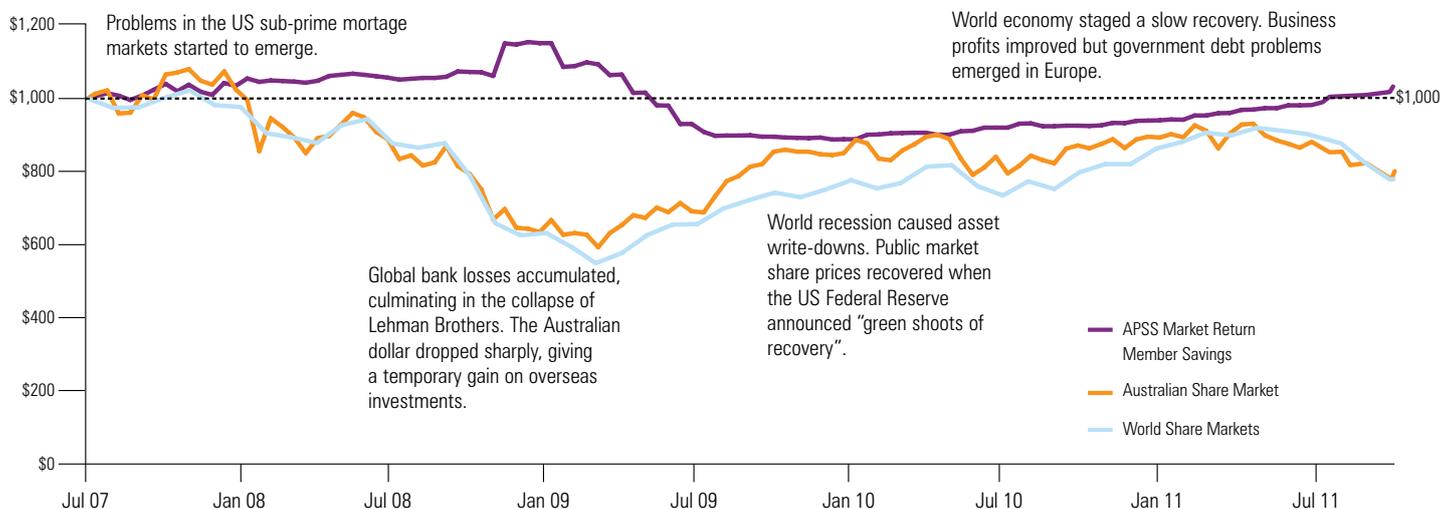
Remember, Cash Return Member Savings are protected by a Capital Guarantee and Cash Return Crediting Rates cannot be negative.

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Behind the numbers (cont.)

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.



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

## Your 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.

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. APSS adopts strategies to reduce the impact of volatility of financial market 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.

## Switching

You may switch all or part of your Member Savings between the Market Return and Cash Return investment options if you wish. This can only be done fortnightly.

Before deciding between the options, you should consider your:

- **investment timeframe**, that is when you think you will need to draw on these savings. The longer the timeframe, the longer you have to 'ride out' the highs and lows
- **risk tolerance**, that is how much variance in returns can you tolerate
- **full financial position**, take into account your other investments, other superannuation and assets.

Remember that superannuation is a long term investment and switching between Member Savings investment options carries risk. Your switching decisions can significantly impact your retirement savings and lifestyle.

You should consider consulting a professional financial adviser before switching any of your Member Savings.

## 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.

Australia Post Superannuation Scheme (ABN 42 045 077 895)  
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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.

