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apss
AUSTRALIA POST SUPER SCHEME

Australia Post Superannuation Scheme
ABN 42 045 077 895
Locked Bag A5005
Sydney South NSW 1235
*Super*Phone **1300 360 373**

Important investment news about your APSS Member Savings

Do you have APSS member savings invested in the **Conservative**, **Balanced** or **High Growth** investment options? Are you planning to invest in any of these options in the future? If so, this notice informs you about a new type of investment in **real assets** that will soon start being added to the asset mix for these three options. This may also be relevant if you are an employee member with an APSS 'Other Offset' account. Maintaining real asset investments as a separate asset class means that the 'private markets' asset class will only comprise equity investments. We will therefore take this opportunity to also change the name of the private markets asset class to **private equity.** This change has associated adjustments to alternative credit and cash allocations as noted in the tables and footnotes on the next page.

What are real assets? Real assets are investments in property and infrastructure (e.g. office buildings, shopping centres, roads, ports). Real assets have the potential to earn higher returns in the long-term but there is also more risk in the short term than there is with assets like bonds and cash. We won't be actually going out and buying an office building or shopping centre. Rather, the APSS will have a share of real assets investments via publicly-listed securities and pooled funds. Real assets are considered to be '**growth**' assets.

Why are we introducing real assets? Introducing real assets enhances investment diversity. The Trustee continually reviews the investment strategy of the APSS to enhance portfolio diversification and manage risks as market conditions change. Real assets provide an opportunity to further diversify the growth assets of the APSS and the Trustee believes that an allocation to real assets is in the best interests of APSS members in the Conservative, Balanced and High Growth investment options.

How and when will real assets be added into the asset mix? From December 2018, the APSS is taking a phased approach that will gradually build the real assets allocation to a strategic target of 15% of the Balanced and High Growth investment options and to 5% for the Conservative option. The portfolio in which defined benefit assets are invested will also have an allocation target of 15% into real assets. The current allocations to private equity will gradually reduce, and a lower allocation to cash in the Balanced and High Growth investment options only, will make room for real assets.

What has not changed? There is no change to the Cash option and no financial impact on most members' APSS Defined Benefit. APSS Defined Benefits are not at all impacted by investment returns generated by all of the underlying investments including real assets, except in very limited cases where members have an 'other offset' account, which continues to attract the crediting rate determined by defined benefit assets.

Do I need to do anything? There's nothing you need to do now, unless you are invested in these investment options and believe that the changes in the strategic asset allocation will mean they no longer align to your own personal investment strategy. There's more information over the page. To switch an investment option, login to your account at **apss.com.au/Member Access** and click *Investments*, then *How you invest*. Call ***Super*Phone 1300 360 373** for assistance or more information.

Yours sincerely

APSS Member Services

What does the more diversified investment strategy look like with real assets in the mix?

Here are the new strategic asset allocations that will be gradually implemented from an expected start in December 2018. Real assets will be added gradually so you won't see it appearing in actual asset allocations just yet. Over time, you will see the allocation grow closer to these strategic targets.

Asset Class	Cash	Conservative[1]	Balanced[2]	High Growth[2]	Defined Benefit[3]
Public market shares	-	20%	40%	60%	40%
Private equity	-	6%	12%	12%	12%
Real assets	-	5%	15%	15%	15%
Alternative credit	-	4%	8%	8%	8%
Bonds	-	40%	20%	-	20%
Cash	100%	25%	5%	5%	5%

In practice, the asset allocations will fall within the following ranges, which allow the APSS to navigate changes in market conditions. To track the gradual increase in real assets and consequent reduction in private equity, keep an eye on the quarterly updates in future editions of your *Insight* member newsletter (go to **apss.com.au** and click on *Publications & Forms*, then *Insight newsletters*.)

Asset Class	Cash	Conservative[1]	Balanced[2]	High Growth[2]	Defined Benefit[3]
Public market shares	-	10% - 30%	30% - 50%	40% - 70%	30% - 50%
Private equity	-	0% - 20%	0% - 40%	0% - 40%	0% - 40%
Real assets	-	0% - 10%	0% - 25%	0% - 25%	0% - 25%
Alternative credit	-	0% - 8%	0% - 15%	0% - 15%	0% - 15%
Bonds	-	30% - 50%	10% - 30%	0% - 10%	10% - 30%
Cash	100%	15% - 35%	0% - 20%	0% - 20%	0% - 20%

1 The previous strategy allocated 11.25% of the Conservative option's portfolio to private market assets, within a range of 5% to 25%. Alternative credit was previously 3.75% within a range of 0% to 7.5% for the Conservative option.

2 The previous strategy allocated 22.5% of this option's portfolio to private market assets, within a range of 10% to 50%. Alternative credit was previously 7.5% for this option, within a range of 0% to 15%. Cash was previously 10% for this option, though the range remains unchanged at 0% to 20%.

3 The Defined Benefit portfolio's strategy has no financial impact on most members' APSS Defined Benefit. However, if you have the type of 'offset' account that attracts the crediting rate determined by defined benefit assets, please remember that the interest applied to that particular account will, in part, be influenced by the alterations noted in the above tables and footnote 2.

Tell me more about the risks

All investments carry some type of risk and virtually all may rise and fall in value. This is referred to as 'price volatility.' Some types of investments also can't be sold quickly at their fair market value. This is known as 'liquidity risk.' Like other growth assets, including public market shares, private equity and alternative credit, real assets carry these risks. To mitigate such risks, the APSS has sought to invest across a number of different asset classes, markets and countries. The APSS is also employing experienced, specialist investment managers to evaluate the quality and risks of each real asset investment before it is made.

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