

Quarterly highlights

QUARTER HIGHLIGHTS

- Central banks in Europe have taken action
- The US economy has improved substantially
- Growth in China appears to have stabilised
- Share valuations remain attractive

The story of the third quarter was all about the share markets. Both in Australia and abroad, shares had a good run during the March quarter, buoyed by improving economic data in the first two months of the year, mostly from the United States. However, by early March, shares gave back some of these gains, as the bigger issues that had been unnerving investors – the continuing saga of the European debt crisis and the Australian “two-speed economy” – remained unresolved.

Jana, Equipsuper’s asset consultants, see the following as the key developments that have encouraged investors over the past few months and led to the most recent rally in equity markets:

- > **Central banks** in Europe and elsewhere have taken more aggressive action recently, providing more liquidity and pushing back the risk of uncontrolled default. According to Jana, “while the problems are far from resolved, recent developments provide reason for greater confidence that the authorities have the powers and requisite commitment to prevent the worst of the worst from happening”. This has much improved investor confidence.
- > **The US economy** has improved substantially, and – more importantly – it seems genuine. Some indicators are slowly approaching more normal levels; banks have repaired their balance sheets and appear well positioned to provide lending support; and real estate prices seem to be stabilising.
- > **Growth in China**, a big worry in 2011, appears to have stabilised. Jana believe that Chinese policy makers are engineering a “soft landing”, with growth slowing down to a more sustainable level.
- > **Share valuations**, despite the recent run-up in equities, remain attractive. According to Jana, the Australian market in particular looks attractive, providing good dividend yields. In contrast, they see bonds as less attractive from a valuation perspective. Interest rates have come down and bond prices have continued to rise, as investors have favoured the perceived safety of the asset class.

Performance relative to median (% p.a.)[^] as of 31 March 2012

Diversified investment option	FYTD (%)	1 year (%)	3 year (%)	5 year (%)	10 year (%)
Growth Plus	↑ 1.33	↑ 2.30	↑ 1.69	↑ 0.73	↑ 1.29
Growth	↑ 0.47	↑ 0.38	↓ -0.38	↑ 1.43	N/A
Balanced Growth	↑ 0.97	↑ 2.08	↑ 0.21	↑ 1.38	↑ 1.28
Balanced	↑ 1.33	↑ 1.70	↓ -0.68	↑ 2.13	N/A
Conservative	↑ 1.56	↑ 2.21	↑ 0.00	↑ 1.46	↑ 0.89

[^] For actual investment returns and information on the SuperRatings medians used, please refer to page 3.



Equipsuper annual percentage above or below the SuperRatings median return for investment portfolios with similar asset weightings.

The strong first-quarter run of shares is reflected in the performance of our Diversified investment options: They all reached positive territory for the first time this financial year during the quarter, after a volatile first half. Equipsuper outperformed peers for most periods by a healthy margin, as the table shows.



quietly outperforming.
equipsuper,

Investment Report

Quarter in review

Australian equities

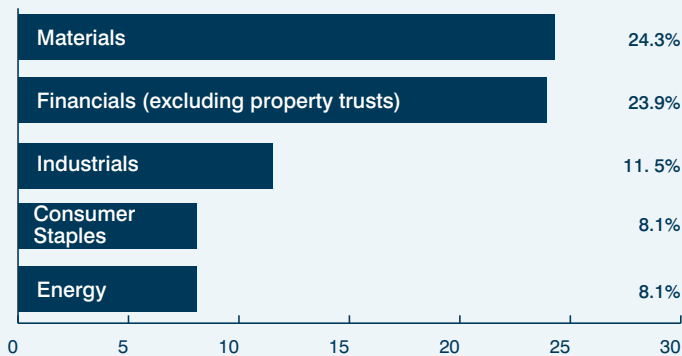
The S&P/ASX 300 index chalked up an 8.6% gain for the quarter. Despite the strong quarter, it underperformed overseas share markets, amidst fears that growth in China would suffer from a setback.

Information technology, industrials and consumer discretionary stocks performed best. More defensive assets underperformed, as investors were flocking to riskier stocks. Telecommunications, materials and consumer staples sectors lagged the market.

Top 10 holdings, Australian Shares

BHP Billiton	7.9%
Commonwealth Bank of Australia	5.0%
National Australia Bank	4.6%
Westpac	4.4%
Australia & New Zealand Banking Group	4.3%
Telstra	3.5%
Woodside Petroleum	2.9%
Woolworths	2.6%
Wesfarmers	2.4%
CSL	2.3%

Top 5 sector allocations, Australian Shares



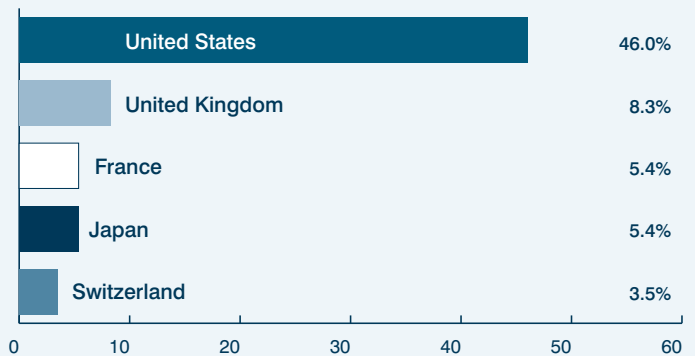
Overseas equities

Overseas markets posted a 10.7% return for the March quarter, lifted by the positive economic news released during the quarter. Japan, Germany and the US led the way. Emerging markets outperformed developed markets, posting a 14% return; the Chinese market lagged, as investors pulled out money amidst fears over the sustainability of its growth. Just as in Australia, defensive stocks underperformed in overseas markets, while cyclical sectors such as industrials, consumer discretionary and financials, posted strong returns.

Top 10 holdings, Overseas Shares

Apple	2.3%
Amazon.com	1.6%
Google	1.6%
Nestle	1.2%
Baidu	1.2%
Exxon Mobil	1.1%
JPMorgan Chase	0.9%
Tencent	0.9%
Intuitive Surgical	0.8%
Atlas Copco	0.8%

Top 5 country weights, Overseas Shares



Property

The Equisuper Property Benchmark, a blend of listed and unlisted indices, returned 4.4% for the quarter. Listed property trusts in Australia showed a solid performance during the March quarter, but underperformed the broad share market, returning 5.5%. Listed property outperformed unlisted property. The asset class provided stronger returns internationally than in Australia, on a hedged basis.

Fixed interest

During the quarter, better-than-expected economic data and increased central bank intervention provided the backdrop for fixed income markets. In Greece, a majority of private holders of Greek government bonds agreed to exchange their bonds for new, longer-dated bonds at less than half the original face value, wiping out 100 billion euros of Greece's 350 billion euro debt. Global bonds, as measured by the Barclays Global Aggregate Index, posted 2.1% (hedged). The Australian bond market returned 0.8%. The Reserve Bank of Australia left the cash rate unchanged at 4.25% during the quarter.

Investment Report

Markets leave GFC behind, despite volatility

Volatility in investment markets might give the impression that it is risky to invest. Let's look at some longer timeframes than just the recent quarter or the last year. Three-year investment returns to the end of March show that, since 2009, investment markets have delivered pretty impressive returns to those who have held their ground through the volatility.

The Equisuper compound annual return to accumulation members invested in the Australian Shares option over the three-year period was 12.13% per annum. Of course, Australian shares make up only a portion of the Diversified investment options our members generally invest in, but an 8.72% return for Balanced Growth over the same period has still handsomely rewarded those who did not move into more conservative assets like cash or fixed interest.

What the returns over other periods show is the value of diversification. Our default Balanced Growth option over 5 years returned 1.72% per annum. Compare this with Australian Shares, which have delivered a negative return over five years of -0.80%. The 5-year returns are interesting because they include the impact of the GFC from late 2007 to early 2009. People invested in the Diversified option have fared better, but even those who might have invested 100% in Australian Shares have virtually recovered their GFC losses. With continuing contributions over the period, accumulation members would actually be ahead of where they were pre-GFC.

So the lessons we have learned are:

- > Over the long term, markets will deliver positive returns;
- > Diversification helps smooth out volatility and can still deliver decent returns at reduced risk;
- > Having a solid investment strategy appropriate to your stage of life and sticking to it is sound policy;
- > Quality investments are not immune to volatility, but generally provide stability and security over the long term.

Investment markets are still not settled. Some of the key developments that bolstered investor confidence, as highlighted above, could lead to more volatility over the next few months. However, now might be as good a time as ever to talk to a professional financial planner about aligning your investments to your personal and financial goals.

Investment returns to 31/03/2012

Superannuation returns *

Diversified Options	FYTD(%)	1 yr	3 yrs	5 yrs	10 yrs
Growth Plus	2.04	0.09	11.23	-1.37	5.38
Survey	0.71	-2.21	9.54	-2.10	4.09
Growth**	1.89	0.12	9.09	0.43	N/A
Survey	1.42	-0.26	9.47	-1.00	4.55
Balanced Growth	2.95	3.05	8.72	1.72	6.14
Survey	1.98	0.97	8.51	0.34	4.86
Balanced**	3.90	4.12	7.34	3.42	N/A
Survey	2.57	2.42	8.02	1.29	4.40
Conservative	5.03	6.21	6.93	4.43	5.87
Survey	3.47	4.00	6.93	2.97	4.98

Sector Specific Options	FYTD(%)	1 yr	3 yrs	5 yrs	10 yrs
Australian Shares	0.12	-3.30	12.13	-0.80	8.13
Overseas Shares	2.37	0.70	9.59	-3.04	0.50
Property	4.37	6.24	4.93	3.31	8.40
Fixed Interest	7.06	9.59	6.53	6.39	5.95
Cash	3.06	4.16	3.86	4.68	4.69
SRI	0.08	-3.59	8.46	-1.90	7.63

Pension returns ^

Diversified Options	FYTD(%)	1 yr	3 yrs	5 yrs	10 yrs
Growth Plus	1.88	-1.32	12.93	-1.46	5.88
Growth**	2.51	0.48	10.96	1.25	N/A
Balanced Growth	3.43	2.60	9.94	1.93	6.73
Balanced**	4.36	4.36	8.64	3.93	N/A
Conservative	5.46	6.50	7.87	5.01	6.60

Sector Specific Options	FYTD(%)	1 yr	3 yrs	5 yrs	10 yrs
Australian Shares	-0.41	-5.27	13.82	-0.88	8.55
Overseas Shares	2.78	0.81	11.84	-3.46	0.70
Property	5.67	7.75	6.09	4.18	9.29
Fixed Interest	8.25	11.22	7.64	7.44	6.87
Cash	3.65	4.96	4.53	5.46	5.47
SRI	0.89	-3.37	11.14	N/A	N/A

FYTD = Financial Year to Date

Surveys: The surveys we use for our Diversified investment options are: Growth Plus - SuperRatings (High Growth - All Fund Median); Growth - SuperRatings (Growth - All Fund Median); Balanced Growth - SuperRatings (Balanced - All Fund Median); Balanced - SuperRatings (Conservative Balanced - All Fund Median); Conservative - SuperRatings (Capital Stable - All Fund Median). Allocated Pension returns are generally higher than for superannuation, as no tax is paid on earnings before unit prices are calculated.

The Sustainable Responsible Investment (SRI) option is invested 100% in Australian equities. For more information on the investment objectives and strategies for our investment options, please refer to the Equisuper website or an Equisuper PDS.

* Returns are net of tax and investment fees. ^ Returns are net of investment fees.

** The Growth and Balanced investment options were introduced on 2 October 2006. Therefore, 10-year returns are not yet available for these options. We have, however, provided the benchmark returns for these options.

Past performance is not an indicator of future performance.

Investment Report

Focus on bonds

Main characteristics:

When investing in fixed interest securities or bonds, investors loan money to governments, semi-governmental organisations and corporations. These entities issue bonds for pre-determined periods and usually entitle investors to interest payments ("coupon") over a fixed period, plus the return of the original capital at the end of the term as a bond reaches its "maturity" date.

The term "fixed" in "fixed income" thus refers only to the schedule of obligatory payments, not the actual amount that is being repaid. There are times when the regular income that fixed interest provides make this type of investment particularly attractive. Bonds are defensive assets and over the long term, they will generally deliver a lower return than growth assets.

What we invest in:

Equisuper invests in about equal parts in bonds both in and outside of Australia, with a focus on high-quality government and corporate bonds. At times, we may also invest in so-called "indexed bonds", which are indexed to inflation, offering some insurance against rises in inflation.

How we invest:

Equisuper's internal investment team manages the Australian bond portion of the fixed income portfolio, and we use experienced global bond managers to run our investments outside of Australia. We primarily focus on quality and capital preservation with our bond investments. This means that we take a close look at the quality of balance sheets – whether the government or the corporation issuing the bond has the ability to service its debt. We fully hedge the currency exposure in the international portion of the fixed income portfolio, which means fluctuations in the exchange rate don't impact returns.

Main risks:

The bond market is a complex trading environment, driven by economic factors, investor sentiment towards growth assets like shares and interest rate movements. Just like other traded securities, bond prices change daily. The biggest risk affecting the asset class comes from interest rates.

If interest rates go up while you hold bonds, their value will fall because the fixed return offered becomes less attractive, as you'd be better off purchasing bonds that offer a higher interest rate or coupon payment. Conversely, **if interest rates go down**, the value of your bonds increases, as investors try to scoop up bonds that carry a coupon payment better than what newly issued bonds would pay. This then drives bond prices up.

Other risks include **inflation risk** (the risk that inflation is higher than the return you get on your bond investments, which erodes your purchasing power); **default risk** (the risk that a government or a corporation that issues a bond is unable to make the required payments on its debt); among others.

What is yield?

Yield is a term commonly used by bond investors to refer to the return an investor makes on a bond. Generally, investors expect more yield on longer maturities (i.e. the time when the principal on the investment is due back to them), since they lock in their money for this period of time.

When managing a fixed interest portfolio, interest rates, yields and price movements have to be constantly monitored, and portfolio allocations changed accordingly.

This brochure is for general information only. It has been prepared without taking into account your personal objectives, financial situation or needs. You should consider whether this information is appropriate to your personal circumstances before acting on it and, if necessary, seek professional financial advice. If you are considering investing in the Equisuper Superannuation Fund ABN 33 813 823 017, you should read the appropriate Equisuper Product Disclosure Statement (PDS) before making an investment decision. You can obtain a PDS via our website or by contacting the Helpline.

The taxation information included in this brochure is a general guide only. As taxation laws are complex and individual circumstances vary, you should seek individual taxation advice from a qualified advisor.

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