

Quarterly

Member investment update

Quarter ended 31 December 2009

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Share markets catch their breath

Although the pace of the share market rally both here and overseas slowed in the December quarter, markets generally finished the year at much higher levels than they were in January 2009.

The Australian share market paused to catch its breath in October, but resumed its rally in November and December, although with smaller percentage rises than during the September quarter. Despite this more measured rise, Australian Shares has been the best performing asset class over the last 6 and 12-months. AustralianSuper's Australian shares portfolio returned 3.3% over the December quarter, and 40.5% for 12-months.

The ongoing strength in the local share market reflects Australia's more positive economic outlook compared to many other developed countries.

During the quarter Australia's unemployment figures peaked and then dropped to 5.6%. The number of people employed full-time increased for the first time since mid-2008. Residential property prices continued to increase, business and consumer confidence indices improved from the lows of 2008 and most of 2009. With these better than anticipated results the Reserve Bank of Australia (RBA) raised interest rates 3 times during the quarter up to 3.75%, noting the record low level of rates was no longer required to stimulate the economy.

We have seen the strength of the Australian economy and outlook in the performance of our unlisted portfolios,

where many of our Australian assets have returned positive results for the December quarter. All of our underlying investment portfolios have recorded increases during the last quarter of 2009, which is reflected in the improving returns to members.

International Shares

International share markets responded positively to the improving global economic conditions that occurred during the December quarter.

Signs of a return to economic growth in many economies encouraged international investors and led to another quarter where major global share markets performed well.

While our International Shares portfolio returned 3.8% for the December quarter, over the past 12 months it has returned 11.8%, compared to only 3.5% for its benchmark.

The returns from Emerging Markets have made a valuable contribution to boosting the return from our international shares investments, with markets such as China and India recovering significantly faster than developed markets.



Performance of AustralianSuper's Balanced Option

Again this quarter, much of the return from our Balanced Option came courtesy of the strong rise in share markets both here and overseas. During the December quarter the Balanced Option achieved a return of 3.2%, which was above the 2.4% median* Balanced super fund return.

While our short-term Balanced option returns have been below median for most of 2009, we are closer to the median balanced fund return with the strong performance of our Australian and International Shares portfolios and improving results coming from our unlisted assets (Property, Infrastructure and Private Equity).

Over longer periods we continue to perform above the benchmark. AustralianSuper is currently ranked third over 10 years against similar funds by ratings firm SuperRatings and we have returned to members around 1% per annum more than the median* Balanced fund. This highlights the strength of our underlying diversified investment strategy over the longer term.

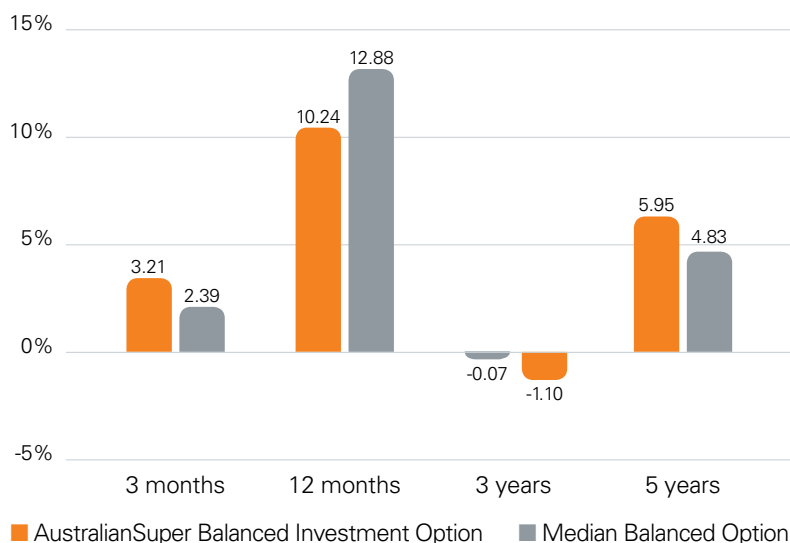
Our management of the portfolio

We have made a number of changes in the asset allocation of our Pre-Mixed options over the past 12 months, to ensure AustralianSuper has in place the most suitable mix of investments for the current investment environment.

We have also made several 'tactical' decisions to invest more into the sectors we believe have the best investment prospects in the near future. These include sectors such as Emerging Markets in International shares (which invest in high growth economies like China and India) and Australian Small Cap Shares (which includes companies outside the top 100).

* SuperRatings Fund Crediting Rate Survey, SR50 Balanced Index, December 2009.

AustralianSuper's Balanced Option returns compared to the median Balanced Option at 31 December 2009

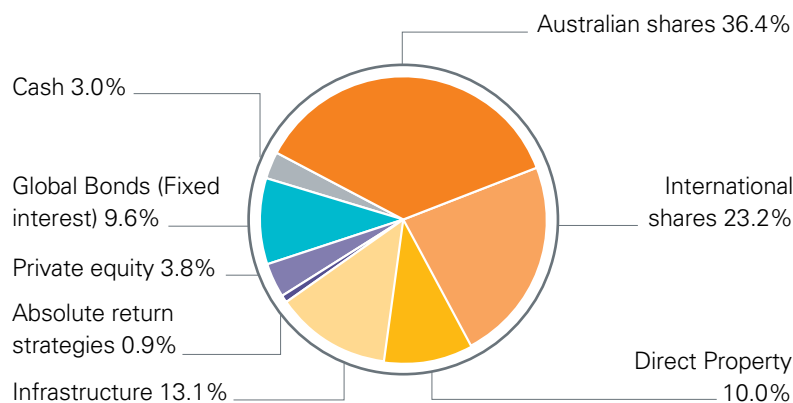


Source: SuperRatings SR50 Median Balanced Option, SuperRatings Fund Crediting Rate Survey, December 2009

Asset allocation of the Balanced Option as at 31 December 2009

The Balanced Option invests in a wide range of investments so members' superannuation savings are exposed to many different types of assets both within Australia and around the world.

The percentage invested in each of the asset sectors in the Balanced Option at the end of December is shown in the graph below.



How the other sectors of the market performed

Property

The property sector was stronger this quarter, with returns improving as property valuations stabilised.

Our Property portfolio returned 1.4% for the quarter, which was ahead of its benchmark return.

With the Australian property market picking up, we are continuing to search out worthwhile investment opportunities, for example, during December we committed \$40 million to the Sustainable Agriculture Fund.

Cash

The key development influencing activity in the cash market was the Reserve Bank's moves to increase local interest rates. Given the strength of the Australian economic recovery, the market is expecting the RBA to continue raising interest rates during 2010.

Our Cash portfolio returned 0.9% in the December quarter, which was slightly above its benchmark.

Fixed interest

Although the Global Financial Crisis (GFC) is receding, it is still influencing the global fixed interest market, with credit markets continuing along the slow recovery path that began in the

June quarter. AustralianSuper's Global Fixed Interest portfolio has been well positioned to benefit from this recovery and our exposure to credit investments proved very beneficial to investment returns during the second half of 2009.

Our Fixed Interest portfolio returned 2.1% for the December quarter, which was almost double that of its benchmark (1.1%).

Private equity

Although there was a noticeable increase in private equity market activity during the December quarter, global conditions remain mixed.

The fund's Australian private equity investments performed much better than those overseas due to the rising local share market and Australia's generally more positive economic outlook.

The return for our Private Equity portfolio during the December quarter was 1.7%.

Infrastructure

The infrastructure sector appeared to pass the bottom of its negative cycle during the December quarter and the outlook for our Australian assets is now much more optimistic.

While the decline in international infrastructure assets valuations appears to have bottomed, they are not expected to increase in value in the short-term due to the slower economic recovery occurring in the US and UK economies.

Our Infrastructure portfolio returned 1.3% during the December quarter.

Absolute return strategies (hedge funds)

The positive performance of our Absolute Returns portfolio continued during the December quarter, with the sector turning in a good performance over the past year. The 12-month return is now sitting at 10.5%, compared to its benchmark at 8.5%.

During the past quarter, our Absolute Returns investments achieved a return of 4.2%.

Currency

The Australian dollar held its strong position against the US currency during the December quarter and mainly traded in a band around \$0.90 to the US dollar. Currency experts had been predicting our dollar would reach the same level as the US currency, however this now appears less likely due to the improving performance of the US economy.

What does this mean for AustralianSuper members?

As the turmoil created by the GFC slowly continues to dissipate, confidence is returning to many investment markets. While the share markets in Australia and many overseas countries led the way and already reflect the growth now re-emerging in global economies, confidence is starting to return to other asset sectors.

The news that investment returns from most asset classes are returning to positive territory is important, because it will lead to improving returns to AustralianSuper members in the months ahead. Our PreMixed investment options contain a blend of several asset classes and as the performance of each sector improves, we will see their overall performance strengthen.

The revival occurring in the various investment markets underlines the importance of AustralianSuper's approach of using a diversified investment strategy and staying invested during periods of market turbulence to ensure members receive good long-term returns on their super savings.

Investment option performance

Performance of AustralianSuper's investment options to 31 December 2009

Investment Option	3 Months		1 Year		3 Years pa		5 Years pa	
	ASuper	B'mark	ASuper	B'mark	ASuper	B'mark	ASuper	B'mark
PreMixed Options								
High Growth	2.86%	2.66%	12.46%	16.45%	-2.01%	-2.36%	5.20%	4.68%
Balanced	3.21%	2.39%	10.24%	12.88%	-0.07%	-1.10%	5.95%	4.83%
Sustainable Balanced	2.10%	2.39%	16.86%	12.88%	0.18%	-1.10%	5.07%	4.83%
Conservative Balanced	2.72%	2.16%	9.26%	12.29%	-	-	-	-
Stable	2.29%	1.73%	7.15%	8.87%	3.60%	2.42%	5.70%	4.72%
Capital Guaranteed	0.64%	0.62%	2.37%	2.50%	4.36%	4.58%	4.60%	4.57%
DIY Options								
Australian Shares	5.17%	2.87%	37.91%	32.69%	0.97%	-1.07%	8.85%	6.92%
International Shares	1.24%	2.25%	11.16%	2.46%	-7.68%	-8.64%	0.83%	-0.52%
Australian Sustainable Shares	4.71%	2.76%	70.55%	32.26%	2.33%	-1.49%	8.84%	6.49%
International Sustainable Shares	-1.93%	-0.42%	5.76%	-2.26%	-10.45%	-9.78%	-2.41%	-1.99%
Property	-1.14%	0.13%	-13.14%	-8.63%	-0.34%	2.37%	4.76%	6.97%
Australian Fixed Interest	0.98%	0.80%	2.73%	1.25%	4.22%	5.30%	4.38%	4.6%
Diversified Fixed Interest	2.12%	0.83%	6.90%	2.04%	4.75%	5.87%	4.62%	5.13%
International Fixed Interest	-1.38%	0.45%	3.09%	2.93%	1.26%	6.52%	3.18%	5.74%
Cash	0.86%	0.70%	3.35%	2.82%	5.30%	4.90%	5.26%	4.89%

Footnote

These historical returns are the combined return information from previous ARF and STA investment options. Where only one of the merging funds previously offered an equivalent to an option in the new product suite, the returns of that option have been used. Where both funds offered an equivalent option, combined returns (asset weighted where possible) have been used. Investment returns are not guaranteed as all investments carry some risk. Past performance is no guarantee of future returns.

Benchmarks

High Growth – SR50 Median Growth Option
Balanced – SR50 Median Balanced Option
Sustainable Balanced – SR50 Median Balanced Option
Conservative Balanced – SR25 Median Conservative Balanced Option
Stable – SR50 Median Capital Stable Option
Capital Guaranteed – UBSA Bank Bill Index adjusted for fees and tax
Australian Shares – S&P/ASX300 Accumulation Index adjusted for fees and tax
International Shares – MSCI AC World ex Australia (in \$A) Index adjusted for fees and tax
Australian Sustainable Shares – S&P/ASX300 Accumulation Index adjusted for fees and tax

International Sustainable Shares – MSCI World Net Dividend Reinvested Unhedged to \$A adjusted for fees and tax
Property – Mercer Unlisted Property Index adjusted for fees and tax
Australian Fixed Interest – UBSA Composite All Maturities Bond Index adjusted for fees and tax
Diversified Fixed Interest – [50% UBSA Composite All Maturities Bond Index + 50% Barclays Global Aggregate Index hedged in \$A] adjusted for fees and tax
International Fixed Interest – Citigroup WGB Hedged Index adjusted for fees and tax
Cash – UBSA Bank Bill Index adjusted for fees and tax

If you have any further questions, contact us.

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