



Consultative Committee Circular – 1/2008

To Consultative Committee members
From David St. John (Joint Interim CEO and Chief Investment Officer) /
Paul Murphy (Joint Interim CEO and Executive Manager,
Marketing and Business Development)
Date 23 April 2008

Dear Consultative Committee members,

On behalf of the Board and Management of UniSuper, we are pleased to provide the following update on UniSuper's progress and activities for calendar 2008 to date.

In this report, we:

- Introduce ourselves as Joint Interim CEOs of UniSuper, following Ann Byrne's departure in early March and pending the appointment of a new permanent CEO;
- Provide an update on the performance of UniSuper's investment portfolio for the 2007/08 financial year to 31 March, a period of significant turbulence in global financial markets;
- Outline UniSuper's position in relation to the issue of securities lending, which has recently been the focus of considerable media and political attention;
- Inform you of a change in Board composition since our last communication with you;
- Summarise some significant business activities within UniSuper since the start of 2008, in particular the launch of a new re-vamped website, and the issuance of Member Benefit Statements for the 6 months to December 2007;
- Foreshadow some important events and milestones ahead, including the move of UniSuper Management into new office accommodation, the celebration of UniSuper's 25th anniversary, and some additional communication initiatives with key stakeholder groups that are currently in planning; and
- Confirm **Friday 14 November 2008** as the date for the Consultative Committee meeting, in Melbourne.

Interim Management Arrangements and New CEO Recruitment

As you will be aware, Ann Byrne departed UniSuper on 7 March 2008 after seven years leadership of the organisation through a number of critical milestones including the SSUA/TESS merger, new administration system implementation, development of the UniSuper Graduated Advice Model, Plan Simplification, Defined Benefit Plan Trust Deed changes and major regulatory changes including Choice of Fund and Better Super reforms.

The two of us took on the Joint Interim CEO role immediately upon Ann's departure, and following an extensive series of handover briefings from Ann and the Fund's Chairman, Elizabeth Bryan.

Both of us will, we hope, be reasonably well known to Consultative Committee members from our own tenure as senior UniSuper executives over the past seven years, in the roles of Chief Investment Officer and Executive Manager, Marketing & Business Development respectively.

The over-riding theme of our tenure as joint interim CEOs is to maintain 'business as usual' pending the appointment of a permanent CEO. In this regard we are pleased to report that solid progress has been made through a complete cycle of Board and Board Committee meetings over the past two months.

The Board also held a very successful Strategic Planning Day in early April, which will lead to a number of new initiatives and service enhancements to be implemented over the coming months. Further detail of these initiatives will be shared with Consultative Committee members in subsequent reports and in the November meeting, once Management and the Board have finalised the 2008/09 budget for UniSuper Management.

The recruitment process for a permanent CEO is currently in train through an executive search assignment being undertaken by Russell Reynolds Associates. The Chairman expects to be in a position to make an announcement on this matter before the end of the financial year and will ensure that Consultative Committee members are informed in advance of a full public announcement.

Investment Performance to 31 March 2008

Since the last meeting of the Consultative Committee in November 2007, there has been significant turbulence in the investment markets both domestically and overseas.

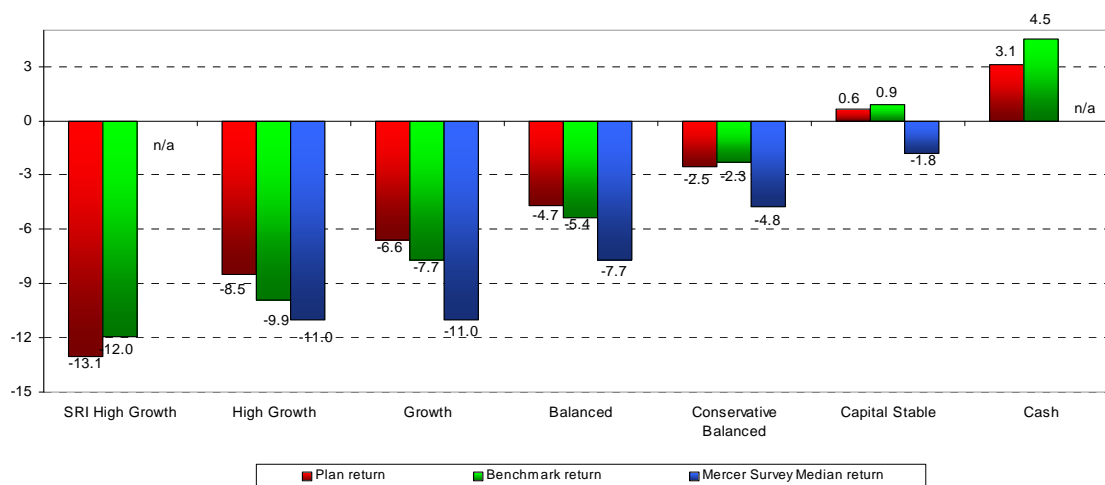
Growing fears of a recession in the US and the magnitude of the crisis in credit markets, requiring the rescue of US investment bank Bear Stearns, have hit investor confidence and resulted in significant falls in equity markets worldwide over the March 2008 quarter. In response, the US Government and Federal Reserve announced a range of measures including a reduction in the Federal Funds rate to 2.25%, increased system liquidity and a reduction in tax rates to prevent widespread destabilisation of the banking system and a further deterioration of the economy.

While these policy measures appear to have calmed markets, conditions remain volatile and further action may be required by US authorities if the actions taken to date prove to be ineffective.

Although the Australian economy is relatively well placed, with little direct exposure to the US credit problems, the local financial sector has not been immune with the rising cost of capital resulting in a number of casualties. As the financial sector is such a significant proportion of the index, ironically this has resulted in a sharper fall in Australian shares than in the US.

As a consequence of the difficult conditions, most Australian superannuation funds are expecting to report negative returns to accumulation members in Balanced or Growth oriented investment options for the 2007/2008 financial year. The following chart depicts UniSuper's Option returns for the financial year period ending 31 March 2008.

Financial Year Returns to 31 March 2008



With the exception of Cash and Capital Stable, UniSuper's Option returns for the 9 months ending 31 March 2008 were negative in absolute terms. Returns for the High Growth, Growth and Balanced Options were, however, ahead of benchmark, underpinned by strong outperformance within the alternative investments asset class. Exposure to alternative investments has helped to partially offset losses incurred in share markets over the financial year period and has contributed to the outperformance relative to the Mercer (institutional fund) medians over the period. A lower exposure to listed property compared to median was also beneficial.

While the Cash Option has produced the highest absolute return over the financial year period ending 31 March 2008, performance for the Option has been below benchmark over the period due to the impact of the portfolio's non bank bill holdings, which have been impacted by recent increases in interest rates in response to sub-prime mortgage market issues in the US.

Performance relative to peers over the financial year to 31 March 2008 was also favourable, with the High Growth, Growth, Balanced and Capital Stable Options all exceeding their respective SuperRatings survey medians over the period.

The recent market downturn has impacted the Defined Benefit Division's VBI level. As at 31 March 2008 the VBI was estimated to be 108.9%.

Securities Lending Issue - UniSuper's Position

Amidst the recent volatile conditions in sharemarkets, the practice of securities lending has drawn considerable media attention. The following comments seek to provide the Consultative Committee with some transparency regarding UniSuper's association with this practice.

UniSuper has participated in securities lending for over ten years and Management views this as a valuable source of revenue for the Fund. In addition, it considers securities lending to be an important mechanism too, for improving market liquidity underlying a number of legitimate market practices. UniSuper participates in securities lending via a program

operated by its custodian, National Custodian Services ('NCS') which lends securities to borrowers on UniSuper's behalf. The fee paid by borrowers is split with NCS and resulted in several million dollars of income for UniSuper in 2007. The program UniSuper participates in is relatively conservative with only a small proportion (maximum 20%) of the Australian shares portfolio lent out at any one time. NCS carefully monitors the stock that is lent out to managers and can recall the stock at any time.

It should be noted that NCS (and ultimately National Australia Bank) bears the risk in all securities lending transactions entered into on UniSuper's behalf. This is because UniSuper participates in the NCS 'principal' program where NCS assumes the ultimate risk. NCS also operates an 'agency' program where the client bears the risk but UniSuper is not a participant in that program.

The high level of media coverage regarding securities lending has given rise to a large number of member queries on this subject. In addition, members have also sought information regarding the performance of the Cash Option. In addition to responding to individual queries on these topics, Management has posted detailed notes on these matters on the UniSuper website (refer link in "Website Upgrade" article below).

Up-to-date performance numbers are, as always, available on UniSuper's website. It is important to recognise that these volatile market conditions are expected to occur from time to time and it is important that our members take a long term perspective and make considered and informed decisions when considering their individual circumstances. In this regard, it is worth noting that despite recent market fall, longer term Option returns remain substantially positive in absolute terms and ahead of both benchmark and survey medians.

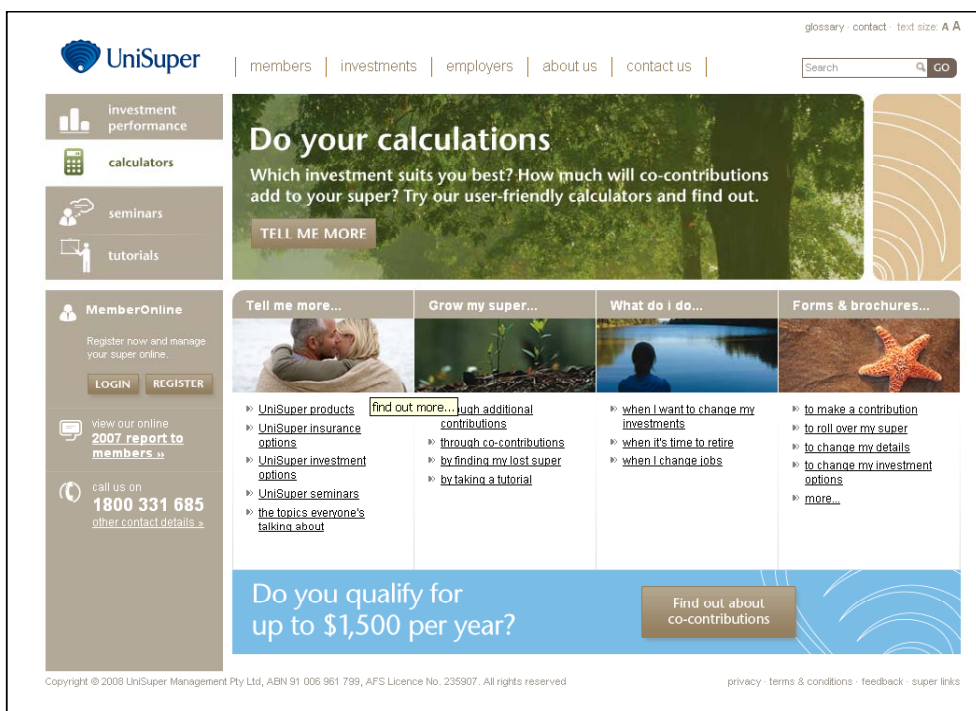
Board Change

At the November meeting the Chairman informed you that Professor John Rickard would be leaving the Board. His replacement is Professor Paul Johnson, Vice Chancellor of La Trobe University. A copy of Professor Johnson's resume is attached for your information. This Board position is a nominee director representing employers, nominated by Universities Australia.

Website Upgrade

UniSuper is pleased to announce the successful launch of its new website in March.

Offering greater transactional capability, improved navigation and a new suite of educational tools, the new site has also been designed to enhance the UniSuper brand in an increasingly competitive market.



The screenshot shows the UniSuper website homepage. At the top right, there are links for 'glossary', 'contact', and 'text size: A A'. The main navigation bar includes 'members', 'investments', 'employers', 'about us', and 'contact us'. A search bar is located on the right. The main content area features a large banner for 'Do your calculations' with the text 'Which investment suits you best? How much will co-contributions add to your super? Try our user-friendly calculators and find out.' and a 'TELL ME MORE' button. Below this is a grid of four sections: 'Tell me more...', 'Grow my super...', 'What do I do...', and 'Forms & brochures...'. The 'Tell me more...' section lists links like 'UniSuper products', 'UniSuper insurance options', 'UniSuper investment options', 'UniSuper seminars', and 'the topics everyone's talking about'. The 'Grow my super...' section lists 'make additional contributions', 'through co-contributions', 'by finding my lost super', and 'by taking a tutorial'. The 'What do I do...' section lists 'when I want to change my investments', 'when it's time to retire', and 'when I change jobs'. The 'Forms & brochures...' section lists 'to make a contribution', 'to roll over my super', 'to change my details', 'to change my investment options', and 'more...'. At the bottom of the grid is a blue banner asking 'Do you qualify for up to \$1,500 per year?' with a 'Find out about co-contributions' button. The footer contains copyright information and links for 'privacy', 'terms & conditions', 'feedback', and 'super links'.

Click on the following link www.unisuper.com.au and you'll find new online member education tutorials, webcasts of EAST seminar material and online calculators, all designed to help members reach their retirement savings goals. We've also introduced improved online transaction facilities, like investment switching, to make it easier for members to update their super.

Initial feedback from members has been very positive and we encourage all Consultative Committee members to log on and have a look too.

In particular, we would urge Committee members to refer to the material in the section labelled "The Topic's Everyone is Talking About" on the home page, in which detailed articles have been published on issues that are currently highly topical in the superannuation and investment media, including:

- The current volatile market conditions and their implications and context for members;
- The launch of the new Socially Responsible Balanced Option on 1 January 2008;
- The mechanics of UniSuper's Cash Investment Option; and
- UniSuper's practices and position on the issue of scrip lending and short selling of stocks.

These articles and more can be accessed via the following link:

<http://www.unisuper.com.au/members/advice-information/tell-me-whats-important>

December Benefit Statements

365,944 benefit statements were issued to members and pensioners as at 2 April 2008. Statements were progressively mailed out over the period from 14 March 2008 to 2 April 2008. As at 2 April 2008, 98% of statements had been mailed with approximately 6,672 statements requiring further data cleansing before finalisation and forwarding to members. The completion and despatch of this final group of statements is progressing at this time.

During the period 13 March 2008 to 16 April 2008, 20,584 calls were received by Member and Employer Services consultants. This equates to approximately 4,117 calls per week. By comparison outside of the statement period call volumes averaged approximately 3,414 per week in the 5 weeks preceding the issuing of statements. This equates to an increase in excess of 20% in the number of calls received during the statement period.

The relaunch of UniSuper's web page 'Member Online' has been very popular with 96,801 members now registered to use Member Online where they can access current account balance, update personal details and make online investment option switches.

Looking Ahead

25th Anniversary

2008 marks the 25th anniversary of the establishment of SSAU and consequently of UniSuper in its current form.

The 25th anniversary is a significant milestone in the history of our organisation and indeed in the Australian superannuation industry generally. It is also a great opportunity to reflect upon the major enduring strengths of UniSuper, not the least of which is the unique stakeholder participation forum that we have in the form of the UniSuper Consultative Committee.

A range of activities is being planned to celebrate the 25th anniversary including the launch of a special publication celebrating UniSuper's history and recognising the contribution of key individuals and member and employer representative bodies. Further details will be provided to Consultative Committee members in due course.

New USM Office Accommodation

UniSuper's Melbourne head office is shortly to undergo some quite radical changes with the consolidation of the company onto three contiguous floors on Levels 36-38 of 385 Bourke Street.

This project will involve a complete re-fit of the office accommodation and new facilities including dedicated member counselling rooms, a new Boardroom, better staff training facilities, and flexible layout and expansion space to cater for the expected growth of the business over the next 5-10 years.

The new accommodation will be progressively occupied in stages over the period late April to mid July 2008, and is being managed in such a way as to ensure full continuity of service delivery to members and employers. As this is a major logistical exercise, some disruptions to normal service standards may be experienced and we will be seeking the understanding of all of our stakeholders in this eventuality.

Please note that all of UniSuper's head office details including street and postal addresses, phone numbers and reception location will remain the same as presently exist.

Superannuation Officers Conference

A conference of Superannuation Officers ('SOs') from all Universities is being held on 8-9 May at Aitken Hill Conference Centre, Melbourne. This conference will update all SOs on:

- Imminent regulatory and taxation changes - for example the new SG definition of Ordinary Time Earnings to take effect from 1 July;

- New product enhancements, such as the introduction of single asset class investment options from 1 July;
- Handling of communication challenges such as the expected declaration of negative investment returns for the 2007/08 financial year; and
- General education on UniSuper's pension products and claims management processes.

The Conference will also provide a valuable opportunity for networking among SOs and USM Member & Employer Services staff, and for recognition of SOs' role in the context of the Fund's 25th anniversary.

Responses to November 2007 Consultative Committee Issues

We are aware that Consultative Committee members are still awaiting a formal response from UniSuper Management to the various policy issues that were raised at last November's meeting. These issues included the naming of the Defined Benefit Plan, surplus distribution policy, contribution flexibility, remuneration disclosure and various communication and reporting issues.

It had been Management's intention to conclude a formal response to these issues before now but unfortunately this has not occurred, primarily because of the transition in leadership of the organisation. We do, however, plan to finalise responses and to circulate these to Committee members by mid June, once the Board has the opportunity to consider certain matters raised at its next meeting on 6 June.

Confirmation of the 2008 Consultative Committee Meeting Date

Consultative Committee members should note that the 2008 meeting of the Committee will be held on **Friday, 14 November** at The Hilton Melbourne Airport Hotel.

Whilst the venue is the same as the one that has become customary over recent years, members should note that the timing is one week later than in previous years (i.e. it will not on this occasion be held on the Friday preceding the Melbourne Cup weekend). The timing also unfortunately coincides with the date of this year's ASFA conference. However this timing clash was unavoidable in terms of both venue booking and director availability purposes.

Further details of the agenda, notice papers and associated documentation for the 14 November meeting will be circulated in due course.

What's new on the Consultative Committee Website?

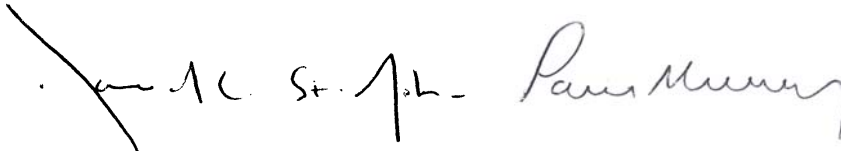
Late in 2007, Ann Byrne provided you with a copy of the minutes of the 2007 Consultative Committee meeting and a list of items that had been placed on the Committee site <https://committee.unisuper.com.au>.

A number of further information items were placed on the site late last year - particularly the market research on the naming of the DBD and slides on the role of the Committee.

A recent Rating and Benchmarking Report from the rating agency SuperRatings has also been added for the information of Committee members, providing some detailed insights into the assessment of all parts of UniSuper's operations by one of the major independent ratings services now operating in the superannuation industry.

We trust that you find the above information of assistance and look forward to further opportunities to communicate with you. Please do not hesitate to contact us via email at UniSuper.CEO@unisuper.com.au or through Michelle Rimmer, Executive Assistant to the CEO Office, on (03) 9691 4102 should you require any further clarification of the matters raised in this Circular.

Yours sincerely,



David C. St. John
Joint Interim CEO /
Chief Investment Officer

Paul Murphy
Joint Interim CEO /
Executive Manager, Marketing and Business Development

Curriculum Vitae

Professor Paul Johnson, Vice Chancellor La Trobe University

Paul Johnson has been Vice-Chancellor of La Trobe University since April 2007, before which he was Deputy Director of the London School of Economics. He holds an undergraduate degree in modern history and economics from the University of Oxford, and a DPhil in economic history, also from Oxford. He was a research fellow at Nuffield College Oxford prior to moving to the London School of Economics where he was successively lecturer, reader, professor and head of the department of economic history before becoming Deputy Director in 2004.

In 1990-91 he held a senior research fellowship in the Research School of Social Sciences at ANU, and in 1996 he was the Downing Fellow in Social Economics at the University of Melbourne. He is a fellow of the (UK) Academy of Social Sciences and of the Royal Historical Society.

His two principal areas of academic research are the economic development of modern Britain, and the economics of ageing and pensions. He has written or edited five books and several dozen articles on the economic impact of population ageing and on pension reform.

As an expert on pension systems he has served as:

- A consultant to the World Bank on pension reform;
- An Adviser to the UK government's Pension Law Reform Committee;
- A Chief adviser to the House of Lords Select Committee on the Economic Effects of Population Ageing;
- An Adviser to the (UK) National Association of Pension Funds; and
- A Governor of the (UK) Pensions Policy Institute.