

Factsheet

March 2010

About legalsuper's Cash investment option

This fact sheet provides information about legalsuper's Cash investment option, including how it is invested and the type of return you can expect.

legalsuper's launched its Cash investment option on 26 July 2008, largely in response to member requests for a 100% cash option. (Prior to the launch of the Cash option, the closest match was legalsuper's Enhanced Cash option, which is comprised of 90% cash and 10% fixed interest securities.) It was apparent that some Fund members, especially those nearing retirement, wanted to protect their super during the global financial crisis by investing in cash (either fully or in part), with a negligible probability of a negative return.

Aim:

- To provide modest investment returns while limiting short-term volatility and loss of capital.
- To match or exceed the UBS Australian Bank Bill Index adjusted for fees and taxes.
- To generate a positive return every year.

Risk profile:

- Likely to produce the lowest long-term investment returns with the fewest fluctuations from year-to-year.
- Capital invested in this option is not guaranteed.
- The probability of this option earning a negative return is low.

Investor profile:

- Will suit investors looking for stability, but long-term investment returns are likely to be the lowest of all investment options.

Investment strategy:

- The Cash investment option is invested 100% in a defensive asset, cash.

How is the Cash option invested?

If your super is invested in the Cash investment option, it will be invested with cash investment managers appointed by the legalsuper Trustee, or directly in term deposits.

Until December 2009, assets invested in the Cash option were invested with one investment manager (Macquarie Investment Management Limited) in the Macquarie True Index Cash Fund, which aims to match the UBS Australian Bank Bill index.

In January 2010, the Trustee diversified the Cash option, and directly invested in a 12-month term deposit with Westpac. The term deposit has a coupon interest rate that is higher than the index return being generated by the Macquarie True Index Cash Fund.

What is the UBS Australian Bank Bill index?

The UBS Australian Bank Bill index is a measure constructed to gauge the investment performance of a passively managed short-term cash portfolio. The Index has an average term to maturity of approximately 45 days. It is comprised of 13 bank bills of equal face value, each with a maturity seven days apart. The shortest, therefore, has a maturity of 7 days; the longest, a maturity of 91 days.

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How does the Macquarie True Index Cash Fund invest?

The Macquarie True Index Cash Fund:

- Invests in a diversified range of highly rated fixed and floating-rate securities, either directly or via funds that Macquarie manages. These will primarily be Australian-issued bank, corporate and asset-backed securities.
- Provides exposure to the performance of the UBS Australian Bank Bill index, and is designed to generate a return equal to the index return.

If the return generated by the Macquarie True Index Cash Fund is lower than the UBS Australian Bank Bill index return, Macquarie will top up the return generated, to match the index return. The reverse also applies, such that if the return is higher than the index return, the outperformance margin is received by Macquarie.

The returns for the Macquarie True Index Cash Fund are therefore likely to be stable and to reflect the index return, and above-index returns will not arise.

How does the Westpac term deposit work?

The Westpac term deposit is a 12-month deposit with Westpac. Westpac pays a fixed interest rate over the 12-month term of the deposit.

Why are the year-to-date returns for the Cash investment option lower than some bank term deposits?

The current phenomenon of banks offering very high interest rates follows the global financial crisis, during which the availability of capital was constrained. Banks have been forced to offer higher interest rates to attract depositors, so that they can have sufficient funds to continue their lending programs. This is likely to be temporary, and interest rates are likely to normalise when the constraints in available capital abate.

There are several other factors to consider when comparing rates:

- Bank term deposit rates are generally promoted as per annum rates, that is, a return for 12 months. legalsuper's declared rates are for the financial year to date, and during the course of a financial year will be for less than a full year.
- Bank term deposit rates are quoted on a before-tax basis. legalsuper's returns are declared on an after-tax basis.
- The returns for the Macquarie True Index Cash Fund reflect the UBS Australian Bank Bill index return, and are likely to be fairly consistent and generally lower than interest rates quoted by the banks.

Important note:

This information is of a general nature and does not take into account your specific needs. You should consider your own financial position, objectives and requirements before making any financial decisions. You should also obtain and read the legalsuper Product Disclosure Statement (PDS) before making your investment decision. Past performance is not a reliable indicator of future performance.