



## SUPPLEMENT TO THE PRODUCT DISCLOSURE STATEMENT INCLUDING THE 2006 ANNUAL REPORT

- The Fixed Interest and Cash options will be closed from 30 November 2007 and will be replaced by a new INTEREST option at 1 December 2007.
- The Capital Stable option will also be closed from 30 November 2007 and will be replaced by a new CONSERVATIVE option at 1 December 2007.

Feedback from members has shown us clearly that those who take a conservative view of their superannuation investments are looking for more certainty and stability of returns than current Fixed Interest and Capital Stable options can provide.

Contrary to the understanding of many members, Fixed Interest investments are not made up of fixed term deposits with banks. Fixed term deposits are Cash investments and will comprise the new Interest option.

Fixed Interest investments generally comprise Government and semi-Government Bonds and corporate bonds but also include other credit based investments. The market value of Fixed Interest securities fluctuates depending upon prevailing interest rates. If interest rates rise (as they have for almost six years), the market value of a Fixed Interest security can fall and produce a negative return.

Capital Stable options traditionally have around 40% of their total assets in Fixed Interest securities and, therefore, a negative return for Fixed Interest can have a significant negative impact upon Capital Stable option returns.

A good example of this was in 1994 when there were three increases in official interest rates in Australia – from 4.75% up to 7.5%. The return from Australian Fixed Interest for 1994 was -6.8% and the average return of Capital Stable was -3.8%. Again, in 1999, Fixed Interest had a negative year (-1.8%) and Capital Stable averaged only 4.3% return for the year.

Interest rates in Australia have been slowly rising since December 2001 (when they reached a low of 4.25%) and are now at 6.5% with the likelihood of further increases in the future.

Since December 2001, Australian Fixed Interest has returned an average of 5.23% pa and, during those 5¾ years, there were several months of negative returns.

For that same period, Cash also returned 5.23% pa but, with Cash, there was virtually no likelihood of a negative return.

International Fixed Interest has returned an average of only 0.68% pa. for that past 5¾ years.



Accordingly, returning to the earlier point of wanting more certainty and stability of returns from conservative investments, we are:

- (1) Withdrawing the Fixed Interest option and the Cash option;
- (2) Replacing **both** of those options with a new Interest option which will comprise only investments in fixed term deposits with the four major banks as well as a small proportion of “at-call” deposits with those banks. Under these arrangements, a negative return could only occur in our Interest option if one or more of Australia’s four major banks defaulted (an extremely unlikely event);
- (3) Withdrawing the Capital Stable option and replacing it with a new Conservative option. Under this new option, the relatively small allocations to shares and property previously made in the Capital Stable option will be maintained but the previous Fixed Interest and Cash allocations will utilise the new Interest option.

There are no changes to the other six investment options offered by the Fund ie:

Australian Shares	Balanced
International Shares	Growth
Property	Sustainable Responsible (SRI) Balanced

## **INTEREST OPTION**

The Interest option seeks to provide an investment return which exceeds CPI changes over rolling 3-year periods.

### **Strategy**

Assets held in this option are invested in fixed term deposits with the four major Australian banks as well as a small proportion of “at call” deposits with those banks. Under these arrangements, a negative return could only occur in our Interest option if one or more of Australia’s four major banks defaulted (an extremely unlikely event);

The Australian Securities and Investment Commission rates the risk of a negative return from this type of investment as negligible. There have been no negative returns from this type of investment in the last 30 years.

Returns from this option will reflect the gross interest rates earned by the fixed term deposits and “at call” accounts less an allowance for bank fees and the 15% tax on superannuation fund investments imposed by the Federal Government.

The Benchmark Asset Allocation for the Interest option and the ranges within which this option can be invested are:

<b>Benchmark</b>	<b>Investment Ranges</b>
90% Term Deposits	90-95%
10% At Call Deposits	5-10%



## CONSERVATIVE OPTION

The Conservative option seeks to provide an investment return which exceeds CPI changes by 2% per annum over rolling 3-year periods.

### Strategy

This option invests in a cross-section of diversified assets with an emphasis on security of capital.

The Australian Securities and Investment Commission anticipates the likelihood of a negative return from a similar type of investment as occurring perhaps once in every 10 years.

Based on a simulation, prepared by the Fund's advisers, of past returns (using market returns before December 1999 adjusted by estimates of tax and expenses and using actual returns since December 1999), there have been no negative return years from this type of investment in the last 30 years.

### Investment Managers

The Conservative option is invested with all of the managers used for the Australian share, International share, Property and Interest options.

The Benchmark Asset Allocation for the Conservative option and the ranges within which this option can be invested are:

<b>Benchmark</b>	<b>Investment Ranges</b>
15% Australian Shares	5-25%
8% International Shares	0-18%
<u>7%</u> Property	<u>2-12%</u>
30%	20-40% Growth assets
<u>70%</u> Interest	<u>60-80%</u>
70%	60-80%

The Fund's investment managers deduct asset fees from the investments that they manage. Those fees are deducted before the investment return is credited to the Fund by each manager.

These fees will vary slightly depending on the proportion of assets invested with each investment manager.

For the Interest option, only the standard bank fees will apply. For the Conservative option, we anticipate fees of a maximum of 0.35% pa will apply.

This document is a supplement to Combined Fund's Product Disclosure Statement (including the 2006 Annual Report) – issued 31 October 2007.
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