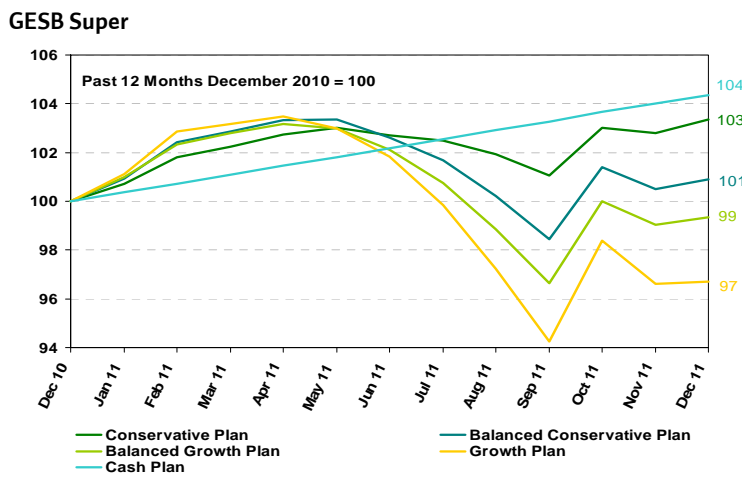


- The December quarter was positive for most asset classes, although sharemarket returns were down for the year as a whole.
- Concerns over the future of Europe continued to dominate investor sentiment as 2011 ended.
- The US remains one bright spot for investors, with growth returning to the economy and unemployment falling.
- Asian markets were the laggards in 2011, buffeted by a series of natural disasters and worries about future Chinese growth.
- Australian equities had their worst year since 2008, with two interest rate cuts over the past quarter failing to lift the gloom.
- The oil price rose as tensions grew between the US and Iran.

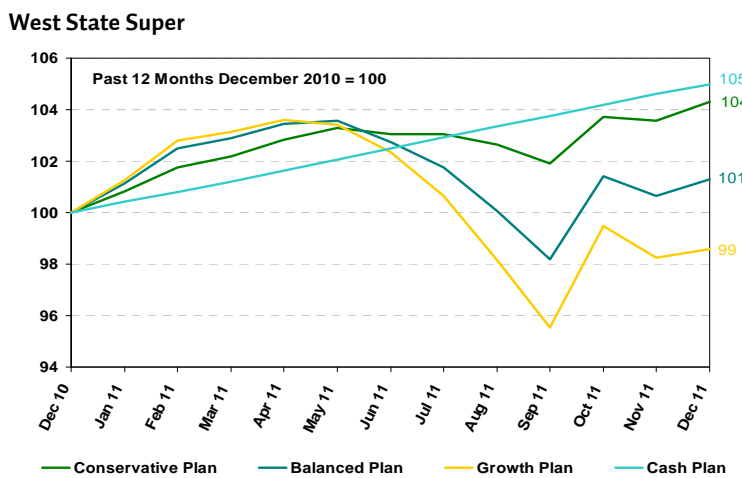
Cumulative performance of GESB's Readymade investment plans



Following recent equity market losses, the performances of the diversified Readymade investment plans have fallen below cash returns for the year to December 2011.

Equity markets fell substantially during the year from April to September, before recovering in the last quarter of the year. Fears over a stalling global economic recovery, political debate regarding the debt position of the US, and the ongoing European debt crisis have been the major drivers of the poor performance.

The Readymade investment plans provide a diversified exposure to a number of underlying asset classes. The various Readymade investment plans perform differently over time, reflecting their different allocations to specific asset classes.

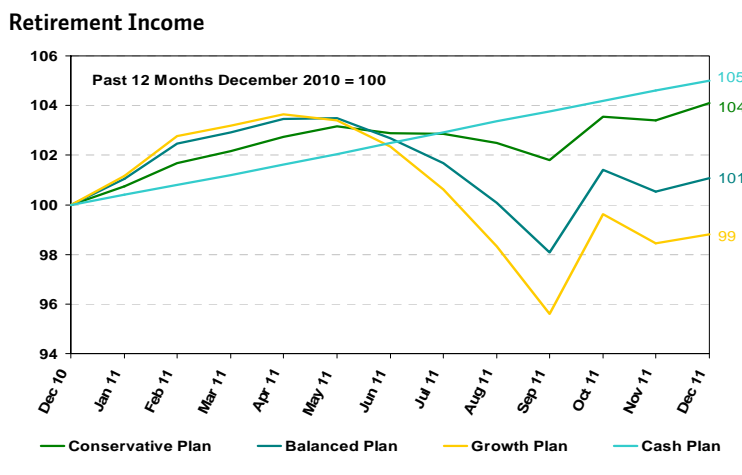


- In **GESB Super**, the Cash plan has delivered the strongest return over the 12 months to December 2011. The declines experienced in the middle of the year by the more aggressive plans have outweighed their stronger performances in the first and last few months of the year. The Balanced Conservative plan outperformed the Balanced Growth plan. This is due to its higher allocation to defensive assets, such as bonds, which helped reduce the impact of the equity market falls.

- In **West State Super**, the Cash plan has been the best performer over the 12 months to December 2011. The more growth-orientated Balanced and Growth plans have fallen due to equity market weakness in the middle of the year.

- In the **Retirement Income** products, the Cash plan was again the best performer, followed by the Conservative plan.

* The earliest date from which returns are available for all five plans, given GESB Super's inception in 2007.



Source: GESB

Notes: The charts show the cumulative performance of the investment plans (net of fees and taxes for GESB Super and Retirement Income and net of fees for West State Super) and do not take into account any contributions or benefits you paid or received during the period, such that the change in value of each plan does not necessarily correspond to the change in your account value over the same period.

The December quarter was generally positive for most asset classes. However, earlier falls in global sharemarkets, over the April-September period, meant that returns were down for 2011 as a whole.

Hopes were high for a resolution to Europe's debt problems...

As the final quarter of 2011 began, there was optimism that European leaders could finally end the long-running sovereign debt crisis that has been undermining global equity market sentiment. In the event, several inconclusive EU summit meetings, plus the replacement (without elections) of the Greek and Italian Prime Ministers by new EU-backed leaders, did little to end the uncertainty. Spain also saw a change of government, following November elections. As the year ended, there remained significant concerns about Italy's ability to service its debt, with the country needing to repay some €300 billion over the course of 2012. If the Eurozone's third-biggest economy finds itself unable to pay the bills in 2012, then all bets would be off as to the future survival of the euro in its current form.

...but uncertainty persists into 2012

Worryingly for investors, there was something of a breakdown in unity among EU leaders as the crisis continued. At the final EU summit of the year, UK Prime Minister David Cameron used the British veto to stop the EU from pressing ahead with treaty changes which Cameron believes would prejudice the business activities of banks in the City of London. As such, although the remaining 26 members of the EU have agreed to press on with a new longer-term deal designed to impose tougher rules on member states that run big structural budget deficits, it seemed that European leaders had missed an opportunity to take decisive action to shore up the euro. Certainly, markets were continuing to sell the single currency at the end of the year, with the euro breaching the US\$1.30 mark for the first time since January 2011 and falling to its lowest level since December 2000 against the Japanese yen.

The US provides some cheer

Investors seeking bright spots in the current environment are looking to the US, where the US Conference Board Consumer Confidence Index rose to 64 in December from a low of 41 in October. There were also increases in retail sales and new housing starts for November. Growth is returning to the US economy and unemployment is falling. After a highly volatile year, US equities were the strongest performers over the last quarter of 2011, with the S&P500 total return index rising by 11.8%. This compares to a rise of 9.4% for the UK's FTSE 100 total return index and around 7% for French equities over the December quarter. Looking at 2011 as a whole, US equities were essentially flat, whereas the Euro STOXX 300 index was down by 17.3% on the year.

Asian equity markets were the worst performers of 2011

Both Indian and Chinese equity markets fell by over 20% over the past 12 months, with Japan's Nikkei 225 equity index closing 2011 at 8,455 points, its lowest yearly closing level since 1982. Over the last quarter, there was another natural disaster in the region, with Thailand experiencing the worst flooding in 50 years. More recently, December saw renewed regional uncertainty over the future of North Korea, following the death of dictator Kim Jong-Il, which caused further jitters on Asian markets.

Uncertainty over the short-term Chinese economic outlook

The state-owned Bank of China is forecasting Chinese GDP growth of around 8.8% for 2012, down from 9.3% in 2011. Although this is still strong by current developed world standards, there are growing concerns about both inflation and domestic property prices. This in turn raises the threat of a 'hard landing' for the domestic economy, especially if global demand for Chinese goods weakens.

A poor year for Australian stocks...

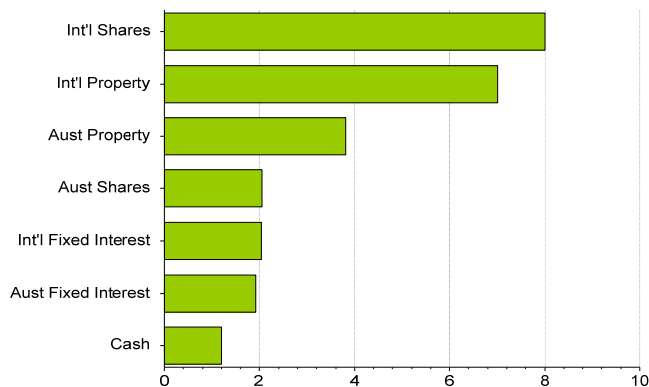
In Australia, although the S&P/ASX 300 accumulation index gained 2.1% over the December quarter, this was primarily due to the 7.2% rise seen in October. Both November and December saw the index post losses, marking eight months of decline for the index across 2011. This places 2011 second only to 2008, when the index fell in nine months out of 12. Two interest rate cuts by the Reserve Bank of Australia (in November and December, both by 0.25%) did little to lift the gloom surrounding equities, with defensive sectors such as Utilities and Telecommunications outperforming consumer-linked sectors.

...but the Australian dollar remains strong

The two interest rate cuts over the December quarter did little to sap the strength of the Australian dollar, which ended the year above parity against the US dollar. However, the past three months saw extreme volatility, with the currency moving between a high of US\$1.06 and a low of US\$0.96.

Oil price and spot gold prices are on the rise again

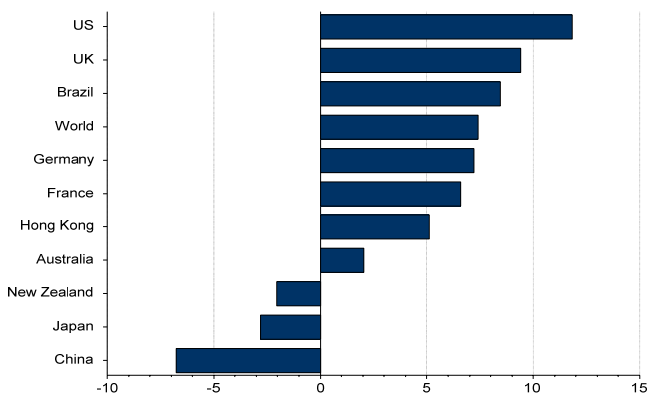
On commodities markets, oil prices rose, as tensions escalated between the US and Iran. Iran has threatened to blockade the key Strait of Hormuz, through which 40% of the world's oil passes, in retaliation for ongoing US sanctions against the regime in Tehran. Lastly, as 2012 began, spot gold prices were once again on the rise, after falling by some 10% in December, as investors continue to seek safe havens during this time of global economic and political uncertainty.



Asset class returns

All asset classes advanced over the December quarter with growth assets the best performers

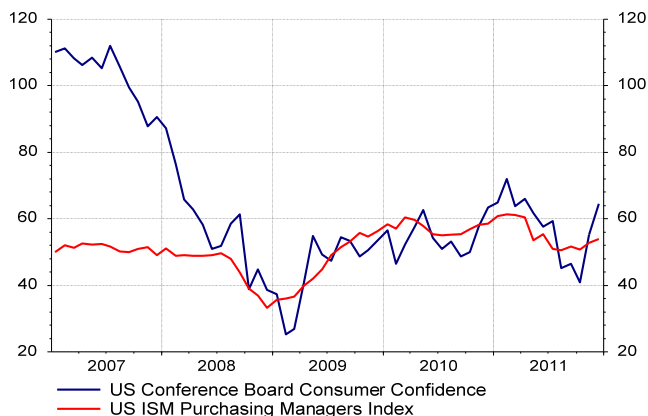
- The quarter was dominated by a risk asset rally in October that saw international shares in developed markets rise 8.6%, Australian shares gain 7.2% and the international property asset class advance 10.3%. The gains in October set the tone for the quarter (see chart), with growth asset classes outperforming defensive asset classes, although Australian equity returns were muted over the quarter
- This rally was sparked by the outcome of the European Union summit held in Brussels on 26 October between leaders of the EU where (another) agreement on Greek debt was reached



World sharemarkets

Most global sharemarkets rose over the quarter, with China and Japan the laggards

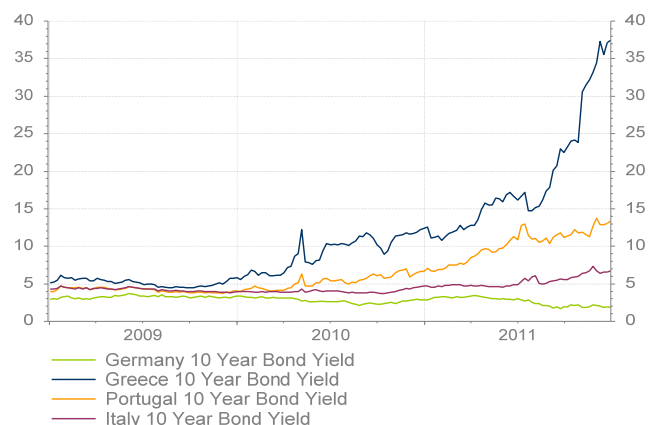
- The US S&P 500 total return index had the best performance for the quarter, gaining 11.8%, followed by the UK FTSE 100 total return index which rose 9.4%
- The Chinese Shanghai Composite total return index lost 6.8% over the quarter in a forgettable year for the index, with an annual loss of 21.7%
- European markets generally increased over the quarter on the various EU summit meetings, although the Euro STOXX 300 index was 17.3% lower for the calendar year



US

Positive signs from the US economy in the December quarter helped the US sharemarket outperform

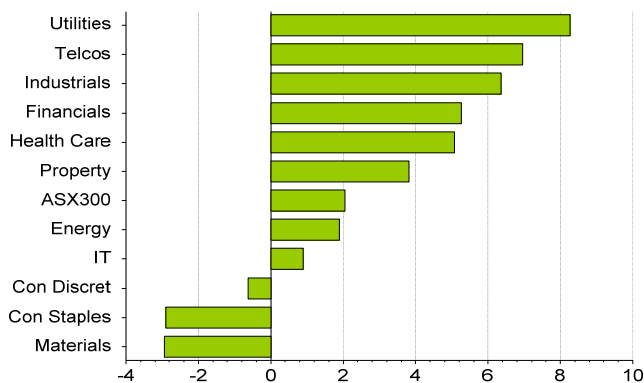
- The US Conference Board Consumer Confidence Index jumped to 64 in December from a low of 41 in October. Business confidence has also been gaining positive momentum since October
- The US S&P 500 price index, a widely quoted index that does not include the impact of dividends, finished the year essentially flat at just 0.003% lower. With dividends included, the total return index rose 2.1% for the year. This small movement masks the volatility of the year; the S&P 500 price index had been up as much as 8.4% in late April and down nearly 13% for the year in early October, before recovering 11.2% in the December quarter



Europe

European leaders continued to debate the crisis over the December quarter, with summits held in October and December

- The December summit concluded with a deal outside the EU framework, due to Britain's use of its veto power
- The proposed deal imposes tougher budget rules upon the signatory nations, including the introduction of a 'golden rule' of maintaining a structural budget deficit of less than 0.5% of GDP
- Ratings organisations also put further pressure on the Euro area over the quarter: S&P put six AAA members on "credit watch negative" and Fitch lowered its outlook on France's AAA rating to "negative" as well as placing six other countries on downgrade watch



Australian sharemarket

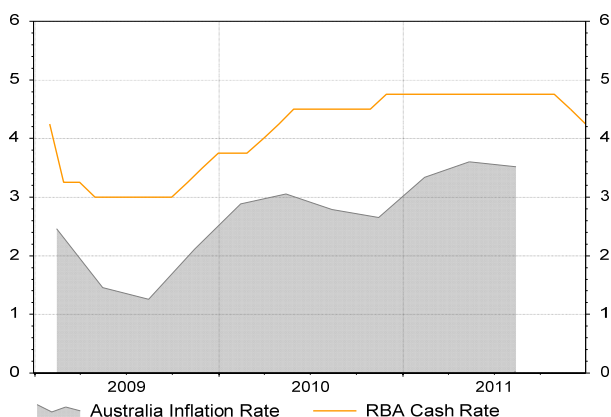
The S&P/ASX 300 accumulation index gained 2.1% for the December quarter, due to the 7.2% rise in October

- The index lost ground in November and December, marking eight months of decline for 2011. Since the inception of this index in 1992, only 2008 had more down months with nine
- The defensive Utilities and Telecommunications sectors outperformed over the quarter while the cyclical sector, Materials, and the consumer-linked sectors, Consumer Staples & Consumer Discretionary, underperformed
- Consumer stocks, particularly retail-focused stocks, faced a number of headwinds coming into the Christmas period, despite two interest rate cuts by the Reserve Bank of Australia (RBA)

Australian economy

The RBA reduced interest rates for the second month in a row by 0.25%, setting the cash rate at 4.25%

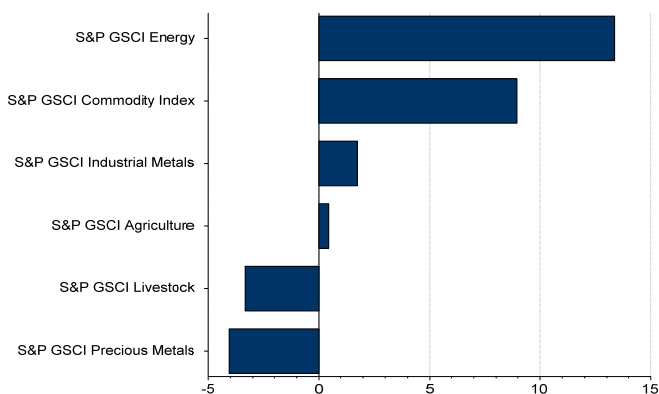
- According to the RBA minutes, this was again due to the risk to the global outlook from sovereign debt stress and a "non-trivial possibility of a very sharp contraction" in Europe
- However, domestic conditions were acknowledged to be "mixed but slightly stronger than was the case around the middle of the year"
- The NAB Business Confidence Index moved higher over the quarter, while the Westpac-Melbourne Institute consumer confidence index fell reaching a level of 95 in December. Readings below 100 indicates negative consumer sentiment



Commodities

The S&P GSCI Commodity Index gained 8.9% over the quarter, driven mainly by a positive performance from the Energy sector

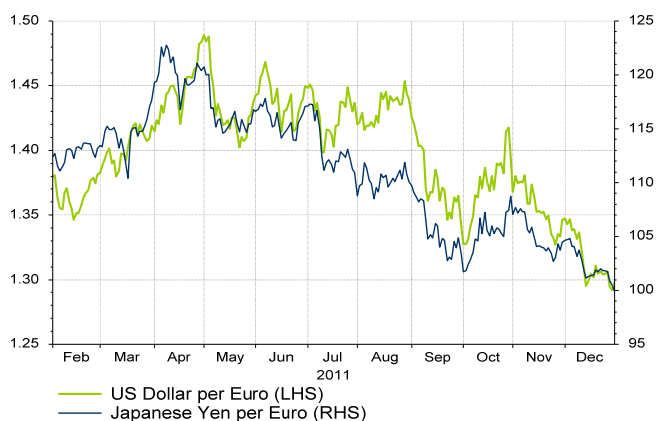
- The Energy sector rose 13.4% in the December quarter as oil prices were supported by new concerns over Middle Eastern supply of crude oil, most recently in Iran during November
- The Precious Metals sector fell 4.1% over the quarter. The sector gained 7.4% in the October 'risk-on' rally, but lost 11.1% in December, mainly due to a fall in the spot gold price
- Industrial Metals were mixed over the quarter. Iron Ore was an outlier, falling 19.1% over the quarter, due to a 30.9% price collapse in October which was fuelled by slower construction steel demand in China



Foreign exchange

The Australia dollar weathered two interest rate cuts over the quarter, while the euro was weaker against most other major currencies

- The Australian dollar finished the quarter above parity against the US dollar in a volatile quarter. The Aussie saw a high of US\$1.06 in October and low of US\$0.96 in November, before finishing at over US\$1.01
- The euro was weak, losing 3.2% against the US dollar; it breached the US\$1.30 mark for the first time since January 2011
- The euro also reached its lowest level since December 2000 against the Japanese yen, finishing the year at a low of ¥99.66



Investment Update, December Quarter 2011



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