Axis Superannuation

MAGAZINE July 2010 | Financial food for thought

Super is a long-term investment program

How to ‘look through’ short-term market volatility

Also inside:

The Henry Review: A super change for all Australians

Understanding your Investor Report

Asgard

AS11354-0810bt

Axis

Financial food for thought

Issue 21 | July 2010

What's inside

Super's high on the agenda

Superannuation has been in the headlines in recent weeks with the Government's proposal to lift the Super Guarantee (SG) limit from 9 per cent to 12 per cent by 2012 – part of its commitment to super as the primary long term retirement savings vehicle for all working Australians. The other headlines we know would have caught your attention were those around ongoing investment market volatility which continues to impact all super fund members.

In this edition of Axis magazine we want to give you some context to these big issues by:

- giving you the lowdown on the last couple of months in the market and sharing our experts' views on investment outlook, and
- diving into the proposed changes to the tax system as a result of the Henry Tax Review and look at what it could mean for you and your super savings.

There is certainly plenty to distract investors right now, with considerable change on the national agenda in terms of how Australians manage, grow and protect their wealth, coupled with markets moving constantly. But amid all this, what is probably most important is the old adage that a long-term strategy will minimise the pinch of short-term fluctuations. I am sure this point is high on the agenda in your conversations with your financial adviser right now – and one of the great reasons for having a quality adviser with whom to talk through issues.

Another topic advisers and their clients are discussing right now is how to really make the most of superannuation, given the Government's renewed focus on it. In this edition we talk about how something as simple as consolidating your super into one account can have a big impact in the long-term and make your money work harder for you in retirement.

As it's that time again, we're also providing some information on what's in your Investor Report so you're best equipped to keep your fingers on the pulse of your money ■

Best regards,

John Shuttleworth
General Manager

Market review and outlook

Felix Stephen
Manager Strategy and Research
Investment Solutions

The first half of 2010 proved tumultuous for investment markets. Evidence the global economic recovery was becoming stronger added some positive early support for markets. However, by May increased concern surrounding European sovereign debt was an overriding negative influence on investment markets. Looking ahead, although we anticipate some further volatility in markets in the short term, evidence the global recovery is still on track will provide positive support for growth assets.

Market summary

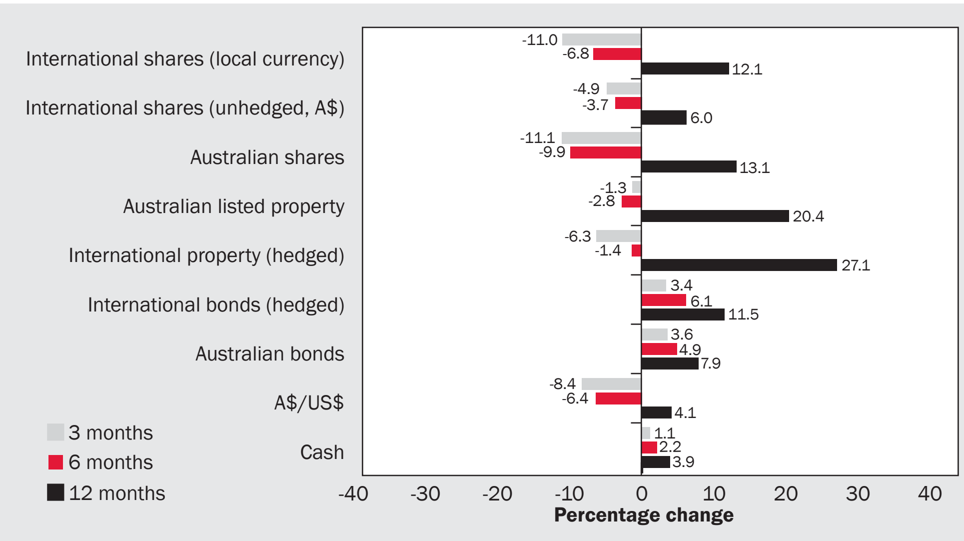
Growth assets (shares and property) performed relatively well over the past 12 months, coming out of the global financial crisis. The following chart shows asset class performance over the past three, six and 12 months to 30 June 2010.

Australian shares

We suspect the market may drift lower in the ultra-short term but will recover as investors' risk aversion improves.

We expect Australian equities to deliver around 20% (including dividends) over the next 12 months, with the ASX200 to be around the 5,200 level by mid next year. We favour resource stocks, as we believe global liquidity conditions should support further commodity price gains and we also like discretionary retail stocks; although we need to look out for any indications of a housing collapse or the RBA tightening policy more than is priced into markets. Finally, once the dust settles over the European

Asset class performance to 30 June 2010



debt crisis, we believe Australian Real Estate Investment Trusts will also be a good sector.

International shares

We believe global equity markets may drift lower in the ultra-short term due to investor sentiment being so poor, but we expect them to return around 17% over the next 12 months. We target the US S&P 500 to be around 1,250, the Nikkei around 11,600, the UK FTSE around 6,200 and the MSCI Europe around 1,260.

Strategically, emerging market equities offer great long-term value. However, the volatility of these markets is likely to remain high due to the gradual normalisation of policy and the relative size of these markets compared to the size of their respective economies.

Diversified listed property trusts

We're modestly positive about this sector over the next 12 months and expect returns around 11%, although in the ultra-short term the market may drift lower. The Japanese office market remains volatile in the face of weak corporate demand from risks of currency appreciation. Office vacancies continued to decline in the UK with overall vacancies down to 12.7% from a peak of 15.3% in May 2009. But other major European cities are beginning to attract global investor interest given many trusts remain at deep discounts to net tangible assets. US Real Estate Investment Trusts have stagnated since a strong first quarter, after the weaker than expected economic news focusing on employment and manufacturing somewhat dampened the excitement for property assets.

International bonds

We're modestly positive about this sector over the next 12 months and expect returns of around 8% to be generated through tactical diversification. In the short-term, we anticipate sovereign bonds to trade in a relatively narrow range. This is due to defensive asset allocations by global defined benefit pension schemes, safe haven buying by investors avoiding financial market volatility and investors buying bonds due to fears of deflation. However, once investor risk aversion abates and return-hungry investors seek higher investment opportunities in growth assets such as equities, global credit and emerging markets, sovereign bond yields are likely to drift higher in the short to medium term with the risk of them moving significantly higher due to fears of a gradual pick-up in inflation in the medium to long-term.

Australian bonds

We expect Australian bond returns to be around 3.0% over the next 12 months as we believe bond markets are likely to suffer with bond yields rising, particularly with the RBA likely to raise rates later this year or early next year. Domestic bonds lack the same amount of monetary policy support found in other global bond markets.

Alternative assets

We anticipate returns of around 16% from this sector through nimble tactical and active strategy implementations. It needs a good blend of both directional and relative value strategies, such as long/short equities, long/short credit and convertible arbitrage.

Commodities

Our anticipated returns for this asset class are around 15% with supply/demand imbalances and geopolitical uncertainty combining to keep key commodity prices elevated for some time. We favour industrial and precious metals on a differing time horizon through the business cycle. We're positive on gold in the short term, and positive palladium and platinum in the medium to long term. Oil prices should recover in the coming weeks and months once bearish factors begin to wane. And the demand for base metal prices is likely to remain robust enough to convincingly support metal prices in the medium to long term.

Currencies

We anticipate a strengthening in Australian dollar, drifting towards the 0.93 level or even slightly higher as investor risk appetite and elevated commodity prices support the currency. We expect the Australian dollar to be stronger against the Japanese Yen, British Pound and the Euro, but remain soft against emerging market currencies ■

A super change for all Australians

The Federal Government's response to the Henry Tax Review has been welcomed by some and highly criticised by others. What are the major proposed changes to super and what could they mean for you?

A summary of the proposed changes

The Government has proposed the following changes:

- Super Guarantee contributions (from your employer) to rise incrementally from 9% to 12% by 2020 – if passed as legislation this will be phased in over seven years.
- Workers who earn less than $37,000 a year to receive up to a $500 super contribution from the Government.
- Workers aged 50 and over with less than $500,000 in super to be allowed to double their concessional super contributions to $50,000 from 1 July 2012.
- A Resource Super Profits Tax (RSPT) on mining profits.

How will these changes affect my super?

Most Australians with a super fund will have Australian shares as a component of their investment and that means they could be exposed to mining companies. But given that most major super funds invest in large, highly profitable blue-chip mining companies (and then only as a proportion of their total share of investments) it seems unlikely that super balances will be adversely affected by the tax in the long term.

Increasing Super Guarantee i.e employer contributions from 9% to 12% will mean more money in your fund when you retire. For example, if you were 30 today and earning an average income, you'd have an extra $108,000 in your super fund by the time you reached 65[1] ■

[1] www.futuretax.gov.au

The benefits of consolidating your super

If you have had a few jobs throughout your working life then you may have super spread across different funds. This can be hard to keep track of, and expensive too, so the benefits of consolidating your super really add up.

Consolidating your super is about finding all your super monies and moving them to one account, so you can have a clear view of how much super you have and really start to make your money work for you in retirement.

Keeping your super money in lots of different accounts means paying multiple fees. By consolidating all of your super into one fund means you could potentially reduce the amount of fees you are paying, which over the lifetime of your super savings program could amount to a large sum.

Here's a hypothetical example:

- Jenny has one super fund with a balance of $10,000.
- George has five super funds, each with a balance of $2,000.
- They both pay an administration fee of $5 per month for each fund.
- Over 30 years, Jenny's super balance grows to $70,600 compared to George's balance of just $47,142[1].

A difference of $23,458 over 30 years, simply because Jenny decided to combine her super into one account.

As well as the benefits of saving money in fees when consolidating, you are also giving your super the potential to really grow through the 'magic of compounding' – where interest builds up upon interest. The larger the amount compounding applies to, the larger the final sum. So getting all your super money together now means you could have more money in the future. Speak to your financial adviser about how you can consolidate your super and get your money working better for you ■

[1] Things you should know: Example based on nominal returns of 8% p.a. (compounded monthly before fees and tax). Investment earnings are taxed at 15% and a monthly administration fee of $5 applies to each fund (deducted at the end of each month). No additional contributions are considered and no allowances have been made for inflation. As with any projection over a long period, a small change in assumptions will make a significant difference to the results.

Understanding your investor report

Your investor report provides lots of information – so we want to give you a heads up on what to look out for, and what key terms mean.

Investor report

- This is a summary of your super or pension account, including performance of investments, contributions, transaction history, insurance and a record of all fees and taxes paid.

Total at 30 June 2010

- The value of all investments in your super or pension account.

Your insurance

- Cover for death or disability. On the occurrence of death, your beneficiaries or estate will receive your life insurance amount plus your account balance amount.

Having insurance via your super fund can be a convenient and tax-effective way of arranging financial protection in case of death or permanent or temporary disablement. Talk to your financial adviser about the best insurance options for you.

- In the event of disability you may receive an insurance payout and can apply to access your superannuation balance before retirement, in extenuating circumstances.
- Salary Continuance Insurance (SCI) provides cover if you have an injury that prevents you from working for a period of time, by providing a regular payment in place of salary. SCI is not available in all products – please check with your financial adviser.

Performance of your investment (rate of return)

- Your rate of return shows any changes in your investment based on the timing and amount of all transactions.
- It's always reflected as a percentage.

Statement of Long Term Returns

- The performance of the investment options in your super or pension account.
- The difference between your rate of return and Statement of Long Term

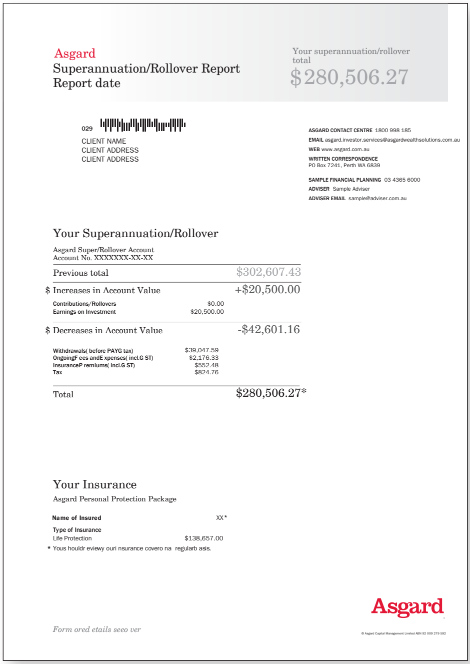
Returns, is that the first takes into account your transactions (such as employer contributions) and the length of time you were invested, whereas the other doesn't.

Beneficiary

- A beneficiary is someone you have nominated to receive your super and insurance (if applicable) in the event of your death. You must nominate a dependant or Legal Personal Representative (the executor of your estate) and it is important you let your financial adviser know, so that you can make sure your death benefit goes to the right people. You can nominate your beneficiary by using the Binding Death Benefit Nomination form, available from your financial adviser or by calling the Asgard Contact Centre on 1800 998 185.

Fees

- Total fees you paid at the end of the year ■



Asgard
Superannuation/Rollover Report
Report date

Your superannuation/rollover total
$280,506.27

029
CLIENT NAME
CLIENT ADDRESS
CLIENT ADDRESS

ASGARD CONTACT CENTRE 1800 998 185
EMAIL asgard.investor.services@asgardwealthsolutions.com.au
WEB www.asgard.com.au
WRITTEN CORRESPONDENCE
PO Box 7241, Perth WA 6839

SAMPLE FINANCIAL PLANNING 03 4365 6000
ADVISER Sample Adviser
ADVISER EMAIL sample@adviser.com.au

Your Superannuation/Rollover

Asgard Super/Rollover Account
Account No. XXXXXXX-XX-XX

Previous total		$302,607.43
$ Increases in Account Value		+$20,500.00
Contributions/Rollovers	$0.00	
Earnings on Investment	$20,500.00	
$ Decreases in Account Value		-$42,601.16
Withdrawals(before PAYG tax)	$39,047.59	
OngoingF ees andE xpenses(incl.G ST)	$2,176.33	
InsuranceP remiums(incl.G ST)	$552.48	
Tax	$824.76	
Total		$280,506.27*

Your Insurance

Asgard Personal Protection Package

Name of Insured	XX*
Type of Insurance	
Life Protection	$138,657.00

* Yous houldr eviewy ouri nsurance covero na regularb asis.

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For more information about your Investor Report please contact your financial adviser, or the Asgard Contact Centre on 1800 998 185.

Q&A

Real answers to real questions.

Q1: I've just received my Investor Report, what should I look out for?

A1: For most Australians, next to the family home, super is probably the largest investment you'll ever make. So look after it and you'll reap the rewards. Your investor report provides you with all the information you'll need to run a quick health-check and make sure all is in order.

Here's a few things you should take a look at:

- Check to see that we have up to date contact information for you – it's important that we have this so we can keep you updated on your investment.
- Have we got your Tax File Number (TFN)? – if we don't, you will end up paying more tax. If you have opened a super account after 1 July 2007, and have not provided your fund with your TFN, all employer contributions (including salary sacrifice) made to that account will be taxed an extra 31.5% regardless of the contribution amounts.
- If you're employed, check your employer's payments during the past year and any additional payments you may have made yourself to make sure all payments are accurately recorded.

Q2: There's a lot in the media around the problems with Greece and European markets at the moment. Does this affect my super?

A2: Greece represents only around 1-2% of European GDP – it's not a big fish in the scheme of things. The recent market fluctuations have been caused by concern the same issues will affect other nations – if Greece defaults on the debt it holds as a country, then who's next, and what's next?

Depending on your individual investment strategy, your super or pension is invested in a mix of different assets, including cash, Australian and international shares and property (among others). These investments can be influenced by market fluctuations.

Over time there will be ups and downs in the market, but your investment is managed by a team of professionals who monitor market movements and adjust your exposure accordingly. Try not to get caught up in the short term noise, however if you are concerned about your exposure to market fluctuations, talk to your financial adviser.

Number crunch

A quick glance at some numbers relevant to you and your Asgard investment.

380,000 Australians use Asgard to manage their investment, superannuation and retirement funds making us one of the largest financial services groups in Australia[1]

32 billion is the total amount of funds under management by Asgard (as at 30 June 2010)[1]

6 million is the number of lost super accounts in Australia, which are worth a whopping $13 billion[2]. To find out if any of it is yours, go to www.ato.gov.au/superseeker

156,000 is the number of calls from investors answered each year by our contact centre[1]

12% is the proposed increase to the Superannuation Guarantee contribution outlined by the 'Tax Plan for our Future'[3], which if passed as legislation will be implemented incrementally between 2013 – 2020[4]

23 is the number of years that have passed since we opened the first Asgard account. Since then we have grown to become one of the largest and most awarded financial services groups in Australia[1]

1 in 6 people will be forced to accept a lower standard of living in retirement due to insufficient super savings[5]

[1] Data on file, Asgard. [2] Figures as at 30 June 2008, Super Clearing house and Lost members framework, Discussion paper, November 2008. [3] www.futuretax.gov.au [4] www.taxreview.treasury.gov.au. [5] Cooper, J. Speech: 'Observations on Retirement' Review into the Governance Efficiency, Structure and Operation of Australia's Superannuation System', 18 June 2009.

Jargon Buster

Here are some easy to understand explanations of commonly used investment terms.

Balanced Fund

A fund (or investment option) which usually invests funds across all major asset classes such as shares, property and cash to provide diversified exposure.

Growth Fund

A fund (or investment option) which invests predominately in growth assets including shares and property.

Conservative Fund

A fund (or investment option) which predominantly invests in low-risk assets, such as cash or fixed interest, but still maintains some exposure to shares and property ■

Generally, the higher the risk, the higher the return – when choosing an investment option, you should consider your individual appetite for risk and discuss with your financial advisor.

Things you should know

Asgard's auto-rebalancing helps keep your investment strategy on track

Your super is invested across a range of managed investments. Over time, the value of these investments can rise and fall – Australian shares could grow, while Listed Property could fall, for example. That means your super investment can become unbalanced, with too much money held in some investments and not enough in others.

Our 'auto-rebalancing' feature helps you keep the managed investments you choose for your portfolio in the right proportions. To make it even easier for you and your adviser to keep your investment strategy in line with your investment goals, we're changing the dates when auto-rebalancing happens.

Auto-rebalance frequency	Old dates	New dates
Quarterly	March June September December	May August November February
Half-yearly	June December	August February
Yearly	June	August

You can choose to rebalance every three months, six months or annually. Talk to your financial adviser about the right rebalancing strategy for you.

Better control over your cash

We've also made some changes to the cash account feature so your financial adviser will have more flexibility and control in managing your cash account, along with your other investments.

What's changed?

A percentage of your total investment is held in your cash account. Once the balance exceeds this required minimum amount by $1,000, we automatically invest the excess.

Your adviser can now change the amount that gets invested by specifying either a set percentage or dollar amount over and above the minimum required cash balance. So if you want to build up the cash in your account, your adviser can simply set your account so that cash accumulates, instead of investing. Your adviser can now also 'switch off' the automatic investment of excess cash.

That means you and your adviser can choose how much, when and where you invest your cash ■

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