

# Directions

August 2004



## Welcome to the latest edition of Directions

The Aon Master Trust has backed up its very strong inflows over the past 18 months with an excellent investment performance for the year to 30 June.

The Trust's pre-mixed and sector options all exceeded benchmark, while the performance of the Balanced Growth option was particularly creditable. In the SuperRatings fund survey for year 30 June, the Balanced Growth option was ranked the best-performing master trust option and the fifth best fund overall, ahead of many big industry and corporate funds.

Following our recent three-yearly review of the Trust's investment and insurance options, we have made a number of improvements to the product. We have added a suite of index options to our pre-mixed range of funds, and reduced the number of investment managers we offer within our Tier 3 range. Consequently, a number of our third tier specialist investment options have been closed to new investment, but existing investments in these funds will not be affected.

On the insurance front, we have made some important improvements to conditions of cover including a reduction in group life rates and better automatic acceptance levels.

Our transfer induction programs for new members are continuing and our client relationship team has been very busy making presentations to members to make sure they fully understand the benefits of transferring to the Aon Master Trust.

*Steven Gaffney  
Director, Superannuation  
Aon Consulting*

## A better year... with more on the way

Australian super fund members will be relieved that the disappointments of the past few years have finally given way to some good news.



*Aon Consulting's Janet Torney*

After two years in largely negative territory, most growth-oriented investment options have made a welcome return to double-digit earnings.

The turnaround follows an impressive rally in share markets and strong growth in property investments over 2003/04. Fixed interest returns, on the other hand, fell to their lowest levels in almost a decade.

Stronger economies right round the globe – especially in the US and China – together with persistent low inflation, and a more favourable geopolitical climate provided the foundation for the much improved investment environment.

This reversal of fortune points to a clear shift in underlying investment fundamentals. Twelve months ago, fears of a US recession dominated the economic agenda. But recent data confirms that the global economy is recovering. The revival is strongest in the US, where the continuation of low interest rates through 2003/04 has boosted consumer and business spending, and the labour market.

The Australian economy has been quite resilient through the last few turbulent years. This is good news, provided the resilience doesn't turn into excess demand, which can lead to an inflationary spiral. To guard against this, the Reserve Bank raised interest rates by 0.5% in late

2003. Since then, a slight slowdown in the local economy has been offset by the pick-up in the global economy.

Share markets responded very positively to the better mood. The local share market was up 21.6% (the best performance in seven years), closely followed by the international share market and the reliable property sector, with 19.4% and 17.4% respectively.

At the other end of the scale, the saviour of Australian investors over the two previous years – the fixed interest market – failed to reach even the cash return of 4.5%.

But not all shares enjoyed the same degree of success as the overall market. Smaller company shares outperformed large company shares by up to 20%. An investment in large cap stocks, would not have delivered the very sizeable double-digit returns available to a well-diversified investment portfolio.

Looking ahead, the underlying investment environment remains positive and there will certainly be opportunities for above average returns. But volatility is also likely to continue so for most investors, maintaining a diversified investment will be the key to superior returns.

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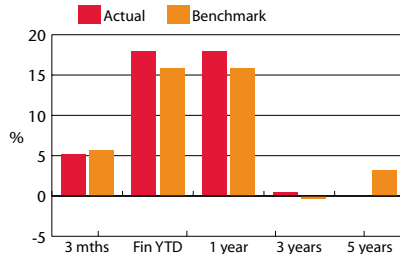
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# aon master trust investment performance

## Pre-mixed options

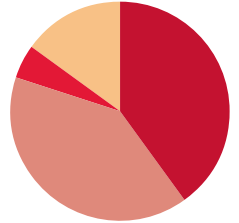
### High Growth

Net returns	3 mths %	Fin YTD %	1 yr % pa	3 yrs % pa	5 yrs % pa
actual	5.1	17.9	17.9	0.4	N/A
benchmark	5.7	15.8	15.8	-0.3	3.2



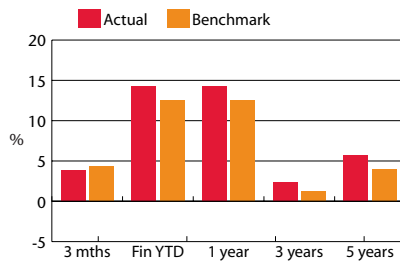
#### Asset allocation

- Australian shares 40.0%
- International shares 40.0%
- Real assets 5.0%
- Alternative assets 15.0%



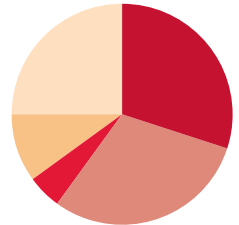
### Balanced Growth

Net returns	3 mths %	Fin YTD %	1 yr % pa	3 yrs % pa	5 yrs % pa
actual	3.8	14.3	14.3	2.4	5.7
benchmark	4.3	12.6	12.6	1.3	4.0



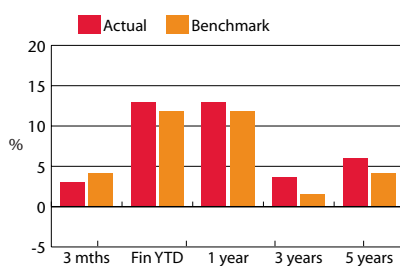
#### Asset allocation

- Australian shares 30.0%
- International shares 30.0%
- Real assets 5.0%
- Alternative assets 10.0%
- Diversified fixed interest 25.0%



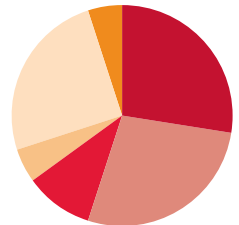
### Balanced

Net returns	3 mths %	Fin YTD %	1 yr % pa	3 yrs % pa	5 yrs % pa
actual	3.0	13.0	13.0	3.6	6.0
benchmark	4.1	11.9	11.9	1.6	4.1



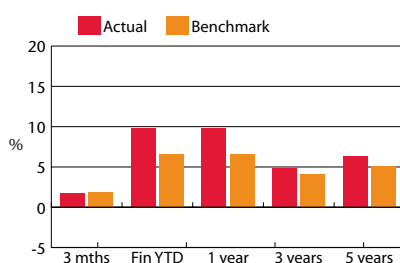
#### Asset allocation

- Australian shares 27.5%
- International shares 27.5%
- Real assets 10.0%
- Alternative assets 5.0%
- Diversified fixed interest 25.0%
- Cash 5.0%



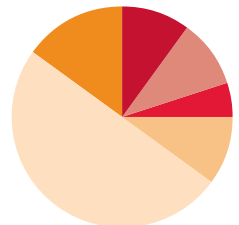
### Capital Stable

Net returns	3 mths %	Fin YTD %	1 yr % pa	3 yrs % pa	5 yrs % pa
actual	1.7	9.8	9.8	4.8	6.3
benchmark	1.9	6.6	6.6	4.1	5.1



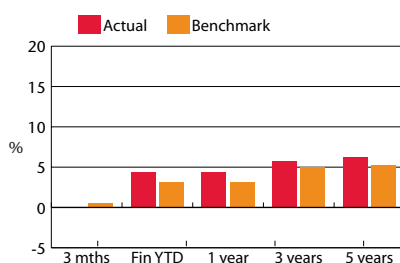
#### Asset allocation

- Australian shares 10.0%
- International shares 10.0%
- Real assets 5.0%
- Alternative assets 10.0%
- Diversified fixed interest 50.0%
- Cash 15.0%



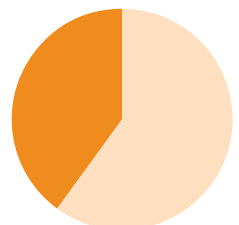
### Secure

Net returns	3 mths %	Fin YTD %	1 yr % pa	3 yrs % pa	5 yrs % pa
actual	0.0	4.4	4.4	5.7	6.3
benchmark	0.5	3.1	3.1	5.0	5.2



#### Asset allocation

- Diversified fixed interest 60.0%
- Cash 40.0%

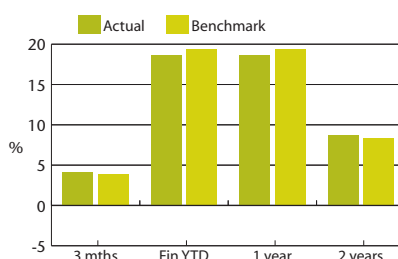


## Sector options\*

\* the Sector options commenced on 1 July 2001 so only two years performance is available.

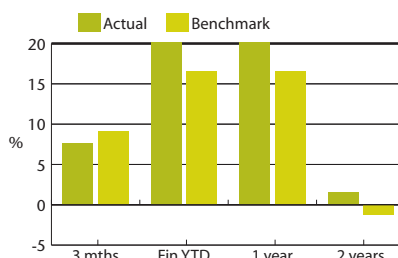
### Australian shares

Net returns	3 mths %	Fin YTD %	1 yr %	2 yrs % pa
<b>actual</b>	4.2	18.7	18.7	8.7
<b>benchmark</b>	3.9	19.4	19.4	8.4



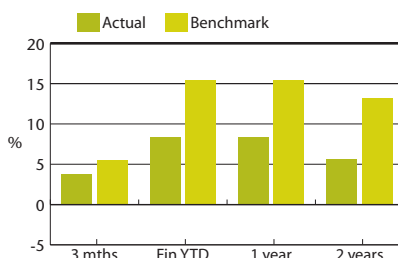
### International shares

Net returns	3 mths %	Fin YTD %	1 yr %	2 yrs % pa
<b>actual</b>	7.6	20.1	20.1	1.5
<b>benchmark</b>	9.1	16.5	16.5	-1.2



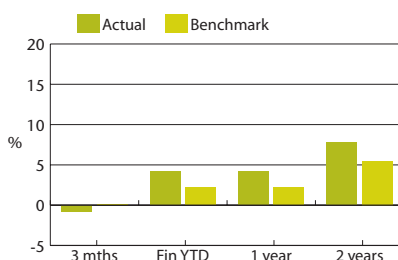
### Property

Net returns	3 mths %	Fin YTD %	1 yr %	2 yrs % pa
<b>actual</b>	3.8	8.4	8.4	5.6
<b>benchmark</b>	5.5	15.5	15.5	13.2



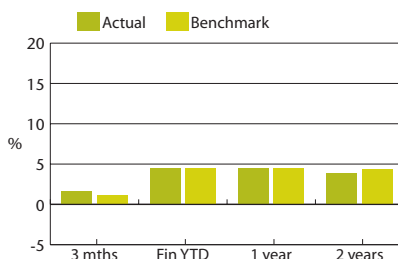
### Diversified fixed interest

Net returns	3 mths %	Fin YTD %	1 yr %	2 yrs % pa
<b>actual</b>	-0.8	4.2	4.2	7.8
<b>benchmark</b>	0.1	2.2	2.2	5.5



### Cash

Net returns	3 mths %	Fin YTD %	1 yr %	2 yrs % pa
<b>actual</b>	1.6	4.5	4.5	3.9
<b>benchmark</b>	1.2	4.5	4.5	4.4



## Specialist options<sup>1</sup>

	3 mths %	Financial YTD	1 yr %	2 yrs %
<b>AUSTRALIAN SHARES</b>				
Alpha Australian Equity	3.2	16.4	16.4	8.0
AMP Australian Share*	2.2	15.0	15.0	6.1
AMP Sustainable Future Aust Share	3.2	16.8	16.8	9.1
BGI – Aust Alpha Equity Fund	2.9	9.7	9.7	N/A
Colonial First State Imputation	3.3	13.5	13.5	4.7
Credit Suisse Australian Shares*	1.3	10.9	10.9	2.9
Deutsche Aust Equities Alpha*	4.2	23.6	23.5	13.0
ING Australian Share*	2.6	13.9	13.9	5.8
ING Emerging Companies#	3.5	31.4	31.4	14.4
JFCP Australian Shares	5.4	21.5	21.5	7.2
Merrill Lynch Imputation*	3.2	16.8	16.8	4.7
Perpetual's Australian*	3.2	15.2	15.2	N/A
Perpetual's Industrial	5.0	18.4	18.4	10.2
Vanguard Index Australian Shares*	5.7	18.3	18.3	6.6
SsgA Australian Equities Index^	N/A	N/A	N/A	N/A
<b>INTERNATIONAL SHARES</b>				
ABN AMRO Global Equity*	6.9	8.1	8.1	-6.8
AMP International Share*	7.4	14.7	14.7	-2.8
AXA Global Equity Growth#	6.9	8.7	8.7	-0.7
Credit Suisse International Shares	6.7	14.4	14.4	-0.2
Fidelity Perpetual Japan*	4.3	36.6	36.6	N/A
Fidelity Perpetual SE Asia*	-4.8	19.0	19.0	N/A
Macquarie Global Small Companies	7.2	24.9	24.9	3.1
MFS Global Equity*	10.5	14.0	14.0	N/A
Platinum International	3.1	23.4	23.4	8.0
Vanguard Index International Shares*	9.6	15.4	15.4	-2.7
SsgA International Equities Index	N/A	N/A	N/A	N/A
Wellington Global Intersection	8.1	11.3	11.3	-4.9
<b>PROPERTY</b>				
AMP Core Property Portfolio	N/A	N/A	N/A	N/A
BT Wholesale Property*	6.2	15.5	15.5	13.3
HSBC Property Securities	5.0	13.0	13.0	10.6
SsgA Australian Listed Property Index	N/A	N/A	N/A	N/A
Vanguard Index Property Securities*	5.2	14.5	14.5	12.2
<b>FIXED INTEREST</b>				
BT Fixed Interest*	0.4	1.4	1.4	4.3
Macquarie Global Bond Solution	-1.3	3.7	3.7	7.8
SsgA Australian Fixed Income Index	N/A	N/A	N/A	N/A
SsgA Global Fixed Income Index	N/A	N/A	N/A	N/A
Vanguard Index Aust Fixed Interest*	0.2	1.3	1.3	4.4
Vanguard Index Int Fixed Interest*	-0.6	1.8	1.8	N/A
<b>ALTERNATIVE</b>				
CDC IXIS Australia Aurora II Fund^	N/A	N/A	N/A	N/A
Coastal International Equity	0.9	N/A	N/A	N/A
Coastal Magnum Div Performance	-0.1	6.5	6.5	N/A
Deutsche Strategic Value*	0.7	5.0	5.0	3.7
Vertex Aust Long/Short Equity Fund^	N/A	N/A	N/A	N/A
Warakirri Absolute Return	1.1	9.2	9.2	6.3
<b>DIVERSIFIED</b>				
Barclays Diversified Growth Fund^				
Barclays Diversified Stable Fund^				
BT Active Balanced*	4.4	17.4	17.4	6.2
Credit Suisse Capital Stable*	1.2	6.8	6.8	4.6
Credit Suisse Capital Growth*	2.7	10.5	10.5	3.8
HSBC Balanced*	4.3	13.2	13.2	N/A
HSBC Capital Stable*	2.2	7.0	7.0	3.8
ING Managed Growth	4.3	12.8	12.8	4.8
Merrill Lynch Balanced*	3.4	12.3	12.3	3.1
MLC Conservative^	N/A	N/A	N/A	N/A
MLC Moderate^	N/A	N/A	N/A	N/A
MLC Assertive^	N/A	N/A	N/A	N/A
MLC Aggressive^	N/A	N/A	N/A	N/A

## A better year... with more on the way

*from front page*

The Aon Master Trust had an excellent 12 months. The returns for the pre-mixed options were among the best achieved by any comparable product. One of the main reasons for this was the Trust's diversification, both between and within asset classes.

Within its international equities portfolio, for example, the Trust had exposure to both large cap and small cap stocks, while the fixed interest portfolio was spread across the entire credit spectrum, not just lower-yielding Government securities.

The Trust's use of multi-strategy hedge funds also paid off. With an average return of around 10%, hedge funds have not matched the large returns

thrown up by share markets over the last 12 months. Nor should they. It is the likelihood of consistent returns at this level that give multi-strategy hedge funds such an important role in our investment process.

*Janet Torney is Principal of Aon's Investment Consulting Practice. Phone (02) 9253 7753 or email janet.torney@aon.com.au*

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## Meet your support team



Tom Rogacki has been with Aon Consulting, and formally TASG (acquired by Aon in April 2000) since March 1999. Originally appointed as a fund controller, he quickly graduated to a senior member of our administration team and is now a Client Service Associate with responsibility for servicing Aon clients within the master fund, and in some cases their advisers. Tom has completed the ASFA Superannuation Certificate and is PS146 compliant.

### What do you find most satisfying about working in client relationship/client management?

I have never been one to back away from a challenge. We would all like to think that everything runs smoothly all the time, but in reality there are always areas that require attention. I like members to know that there is somebody they can trust and rely on to solve problems.

### What are some of the challenges?

The Aon Master Trust is constantly evolving, and new features and benefits are always being introduced for our members and employers. Naturally, we have to keep up with all the improvements so we can explain them to clients. There are also regular changes to industry regulations, which mean our client management team needs to study hard to keep up-to-date with the latest developments.

### Do you find there are any particular questions that clients ask?

Even though our Directions newsletter provides members with quarterly updates on our investment performance, I often get asked for more regular updates. In most cases, I refer members to our website, [www.aonmastertrust.com.au](http://www.aonmastertrust.com.au) which contains monthly investment performance for all our investment options.

### What sort of things are clients looking for in a master trust?

Employers are looking for someone to manage their superannuation obligations efficiently and cost-effectively. That means managing contributions, delivering good investment returns, offering competitive insurance options, and getting the compliance, reporting and communications right. We're getting good business flows into the Trust so I guess we're managing these things reasonably well.

### What do you think is your key competitive advantage?

Good product, good service, good communications.

### How important is it to get out and visit clients and how often do you get this opportunity?

It is extremely important to be in regular contact with our clients through client visits, telephone calls and written communication. We get every opportunity to do this and our aim is to build a relationship with our clients so that we can properly understand their needs and expectations.

### I guess you wouldn't be a true Melbourne boy without a favourite football team?

I've followed Hawthorn for many years and although it's not a great year to be a member I am certain the club's fortunes will turn around in a hurry. I also follow Arsenal closely in the English Premier League, so I guess you can't have all your teams winning at the one time.

### How do you keep yourself occupied when you're not looking after clients?

I like to keep active and play a variety of sports, including a sport you may not have heard of called Ultimate Frisbee. This year I was selected to play for the Australian Ultimate Frisbee team at the World Championships, taking place in Finland. Aon has been very supportive of my passion for this new and upcoming sport and I'm really looking forward to wearing the green and gold for my country.

# Review ensures Trust stays on track

The Aon Master Trust recently completed its three-yearly review of its investment process and structure. We asked Janet Torney, Principal of Aon Investment Consulting, to tell us a little bit about the review.

## What's the purpose of the strategic investment review?

The purpose of the review is to ensure that the Trust's investment objectives, strategy and overall structure are meeting the needs of members. This can only be achieved by taking a step back and looking at all investment aspects of the fund.

Even if the fund is performing well and appears to be meeting its objectives and strategies, we will still carry out a thorough review every three years.

## Can you outline the review process?

The review was conducted in four stages over a 12-month period. In Stage 1, we looked at strategic asset allocation. The objective was to develop a strategy that was robust in difficult market conditions, but also performed well in better investment environments.

In Stage 2, we reviewed the investment strategy and asset classes; Stage 3 focussed on the investment options and their objectives; and in Stage 4, we reviewed the investment managers used by the Trust.

## What changes were recommended?

We have introduced a new index suite of options within our pre-mixed range of funds, giving members much more investment flexibility. Index managers try to match the performance of a specific market index such as the All Ordinaries, the most common benchmark for Australian shares (see story). Index options have a much lower investment management fee, so by mixing our

traditional active options and our new index options, members can reduce costs while still having some exposure to actively managed investments.

We have adjusted our selection of hedge funds to include funds with both growth and defensive characteristics, which gives members further scope to tailor their investments to their needs.

Finally, we have stopped using a number of investment managers who failed to meet our selection criteria and appointed some others with better credentials.

## What advantages do these changes offer?

We are very happy with the Trust's performance over the past few years but at the same time, we know that the good returns are unlikely to be repeated with exactly the same formula. These changes give the Trust a very sound technical foundation on which to build specific investment strategies, while also giving us ample scope to protect our portfolios.

While much of the fund's investment strategy has not changed, there is always a need to fine-tune processes and procedures to maintain our good track record. New investment tools and techniques emerge all the time, so there will always be room for improvement.

## What do the changes mean for the members of the fund?

In short, they mean members will continue to receive consistent, competitive returns in a risk-controlled environment.

## More choice with new index options

The addition of an index suite of investment options to our pre-mixed range gives members a cost-effective alternative to our actively managed pre-mixed options.

An index fund manager seeks to replicate the performance of a particular market index by building a portfolio that mirrors the index as closely as possible. The index manager regularly adjusts the portfolio so that it always reflects the index weighting. As a mirror image of the "real" index, the fund should provide a return that is very close to the index return.

Index funds offer a number of benefits. When you invest in an index fund, you are effectively investing in the whole market, so your investment is very well diversified. You are less exposed to the performance – good or bad – of any one individual security and over time, you will receive the market average return.

Index funds also mean you don't have to worry about trying to pick winners or timing the "market". Guesswork and speculation are no longer necessary because the investment decisions are made for you.

And one of the biggest benefits of index investing is its low cost. Index fund managers don't actively trade the portfolio, so transaction costs, fund management fees and taxes are typically much lower than actively managed funds. The investment management fee on our index funds, for example, is between 0.18% and 0.15%.

## Notes to performance figures p2-3

### Actual returns

All the returns are based on the unit prices of each option. Returns are net of investment fees, and an allowance for tax on the investment income, but before any Aon Master Trust fees. Before 1 July 2001, the returns for the pre-mixed options are based on the equivalent option in Aon Master Trust.

### Benchmark returns

The benchmark returns for the pre-mixed options and sector options are calculated using the asset class indices listed below. Note that the benchmarks for the pre-mixed options are weighted according to the asset allocation for each option. See the asset allocation pie charts for the specific weights used for each pre-mixed option.

### Specialist options

<sup>1</sup> We do not calculate unit prices for an option unless money is actually invested in the option, so long-term returns for some options are not available, even though the underlying funds may have existed for a long period.

\* These funds have been closed to new investment since 1 July 2004.

^ These funds were added to the Specialist options recently and have less than three months performance history in the Trust.

# Not available as a specialist manager option.

Australian shares	S&P/ASX 200
International shares	MSCI World ex-Aust Net (AUD)
Property	S&P/ASX 200 – Property Trusts (GIC) Accum
Diversified fixed interest	75% UBS Warburg Composite All Mat / 25% Salomon WGBI Hedged
Cash	UBS Warburg Bank Bill

### Asset allocation

The pie charts show long-term strategic asset allocations for the pre-mixed options. Actual asset allocations are maintained within  $\pm 2\%$  of strategic asset allocations.

# Legislative changes in brief

## Super choice finally gets green light

After an eight-year battle, employees will finally have the right to choose their own superannuation fund after the Australian Democrats and the Government struck a deal. Previously, employees were required to accept the fund nominated by their employer.

Choice of funds legislation was part of the Government's promises before the 1996 election, but it was unable to win Senate support for these changes until the Government allowed superannuation benefits for same-sex couples and made progress on fee disclosure.

The deal now paves the way for the Superannuation Legislation Amendment (Choice of Superannuation Funds) Bill 2003 to pass. The Bill is currently in the Senate.

While the details are being debated, the legislation will generally require employers to make super contributions on behalf of employees to the employee's fund of choice. Employees would be able to select their fund of choice once per year.

The Australian Institute of Superannuation Trustees ("AIST") has warned ordinary Australians to look carefully and be sure they understand all the implications before changing superannuation funds. The recent legislation, the Superannuation Legislation Amendment (Choice of Funds) Bill 2003, goes into effect 1 July 2005.

AIST President Susan Ryan stated that the new choice environment would be more of a danger than an opportunity. Heavy marketing of expensive retail products, together with the complexity of super will influence some members to switch to a poorer choice. "Workers whose retirement savings are in a not for profit fund, sponsored by employers and run by equal representation trustees, in most cases have a lot to lose if they switch to a retail product."

Ryan also noted that it was not consumers but businesses that would benefit that sought this new choice of fund legislation. She urged the Government and regulators to take steps to protect members against misleading marketing and costly alternatives.

## Government co-contributions

From 1 July 2004, the Government will increase the co-contribution rate to \$1.50 for each \$1 of employee contribution, up to a maximum co-contribution of \$1,500. This co-contribution is available to all employees with incomes below \$28,000 who make personal contributions. Above this amount, the maximum Government co-contribution will reduce by 5 cents for each dollar of income until it phases out completely at \$58,000.

## Reduction in surcharge

The Government will lower the superannuation surcharge rate to 12.5% in 2004/05, 10% in 2005/06 and 7.5% for 2006/07 and following years.

## Insurance options also get a face lift

The trustees have recently completed a full review of the Trust's group life and salary continuance arrangements. The incumbent insurer, AIG Life, has been reappointed with some important improvements to the conditions of cover including a reduction in group life rates, better automatic acceptance levels and a realignment of occupational loadings.

On leaving your employer, death only benefits may be transferred to the personal division of the Aon Master Trust and the TPD benefits may continue, provided you are under 55 years and about to be re-employed.

The response to these measures was mixed. The Association of Superannuation Funds of Australia welcomed the Government's move to increase the super co-contribution to include middle-income earners as well as further reduce the surcharge.

However, both Taxpayer Australia Inc. and the Society of Superannuants have blasted the Government on the superannuation surcharge. They believe the tax should be removed altogether, claiming that the punitive tax discourages Australians from saving for their retirement and forces more retired seniors to rely on the social security pension during their retirement years.

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