

Directions

February 2005



Welcome to the latest issue of Directions

In the last edition of Directions, I mentioned that the Aon Master Trust was one of five finalists competing for SuperRatings' prestigious "Rising Star" award. I'm now pleased to report that the Aon Master Trust won the award. And as members of the Trust, you should be congratulated for placing your superannuation with a very capable and successful organisation.

From 1 July, most employees will be able to put their superannuation – current balance and future contributions – into a fund of their choice. You will no longer be obliged to accept the fund chosen by your employer, although many employees will choose to remain in their current fund. In this issue, we take a look at some of the issues you should consider in the lead up to choice of fund.

On the investment front, the Aon Master Trust had an excellent year, thanks largely to a very good performance by the Australian share market, which returned over 25% for the year.

The consensus of forecasters is that the economic climate in the year ahead is most likely to support reasonable investment returns - albeit, perhaps not as high as the average "balanced" investor enjoyed in 2004. The main risks are the potential for a renewed run-up in oil prices or slump in the US dollar, which could undermine the all-important US economy's strength.

*Steven Gaffney
Director, Superannuation
Aon Consulting*

The choice is yours

It's been eight years in the making but choice of fund is finally in sight. From 1 July 2005, most employees will be able to choose the super fund to which their employer's compulsory 9% superannuation guarantee contributions are paid. So between now and July, employers and employees will have to find out what their rights and obligations are under choice of fund. Here's a brief overview.

In a nutshell

An employee can choose any "eligible choice fund" ie a complying superannuation fund or retirement savings account that can accept contributions from the employer. Some funds may require an employer to become a "participating" employer before accepting contributions. If an employer

does not wish to become a participating employer, an employee may be able to join that fund as a personal member rather than a corporate member. Employees considering a change of fund should check these issues as early as possible in the fund selection process.

(continued back page)

Eligible choice funds

Master trusts	Offered by life companies, banks and other specialist superannuation managers. All members and employers participating in the master trust are bound by a single trust deed – the "rules" of the trust. This allows economies of scale that may mean lower costs.
Retail or public offer funds	Generally provided by life offices, banks and fund managers. A public offer superannuation fund must have an approved trustee and may be required to issue an offer document (Product Disclosure Statement) to prospective members.
Industry funds	A superannuation fund whose membership is drawn from employers (and employees) of one particular industry eg retail, hospitality, automotive etc. Membership of industry funds was originally restricted to a particular industry, but many industry funds are now open to the general public.
Self-managed super funds	Funds with fewer than five members and often set up for small-business owners and their families. Supervised by the Australian Taxation Office.
Retirement Savings Accounts (RSAs)	These are provided by banks and credit unions and operate like a bank account. The fund must be capital guaranteed and hence is likely to return lower interest over the long term.

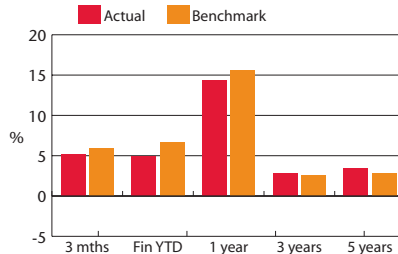
IMPORTANT: The figures below should be read in conjunction with the Notes on page 4

aon master trust investment performance

Pre-mixed options

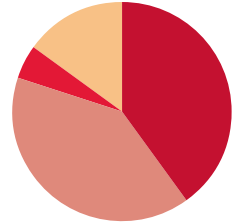
High Growth

Net returns	3 mths %	Fin YTD %	1 yr % pa	3 yrs % pa	5 yrs % pa
actual	5.2	4.9	14.3	2.8	3.4
benchmark	5.9	6.6	15.6	2.5	2.8



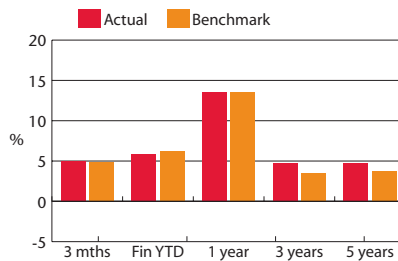
Asset allocation

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



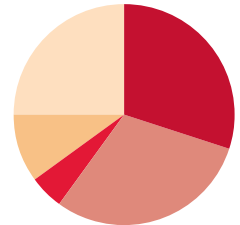
Balanced Growth

Net returns	3 mths %	Fin YTD %	1 yr % pa	3 yrs % pa	5 yrs % pa
actual	5.0	5.9	13.6	4.7	4.7
benchmark	4.9	6.2	13.6	3.5	3.8



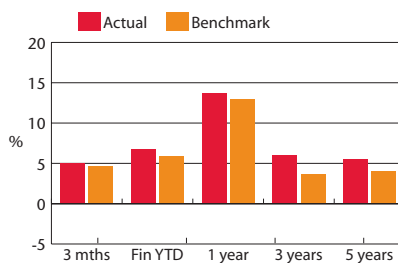
Asset allocation

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



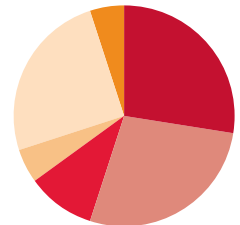
Balanced

Net returns	3 mths %	Fin YTD %	1 yr % pa	3 yrs % pa	5 yrs % pa
actual	5.0	6.8	13.7	6.0	5.5
benchmark	4.7	5.9	13.0	3.6	4.0



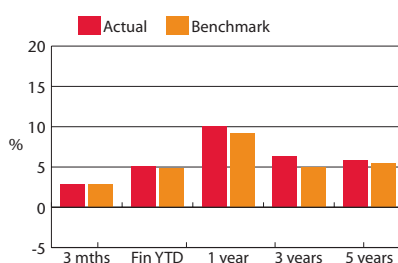
Asset allocation

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



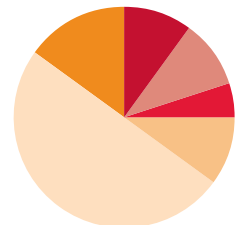
Capital Stable

Net returns	3 mths %	Fin YTD %	1 yr % pa	3 yrs % pa	5 yrs % pa
actual	2.9	5.1	10.1	6.3	5.8
benchmark	2.9	4.8	9.2	5.0	5.5



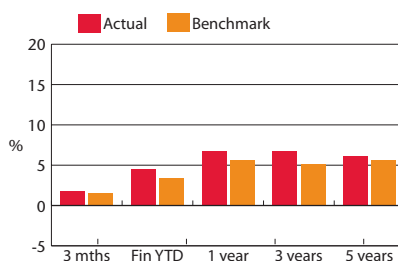
Asset allocation

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



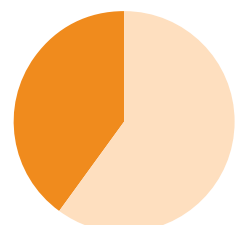
Secure

Net returns	3 mths %	Fin YTD %	1 yr % pa	3 yrs % pa	5 yrs % pa
actual	1.8	4.5	6.7	6.7	6.1
benchmark	1.5	3.4	5.7	5.2	5.7



Asset allocation

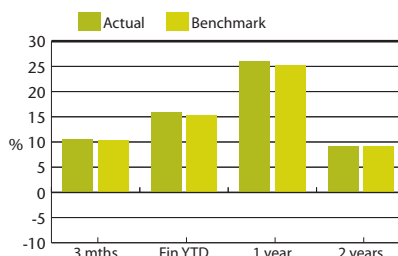
- Diversified fixed interest 60.0%
- Cash 40.0%



Sector options

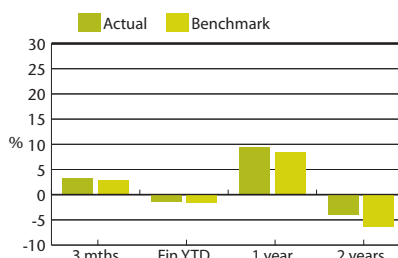
Australian shares

Net returns	3 mths %	Fin YTD %	1 yr %	3 yrs % pa
actual	10.5	16.0	26.1	9.2
benchmark	10.3	15.4	25.2	9.2



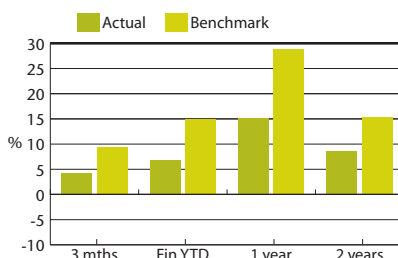
International shares

Net returns	3 mths %	Fin YTD %	1 yr %	3 yrs % pa
actual	3.2	-1.5	9.4	-3.9
benchmark	2.8	-1.6	8.5	-6.4



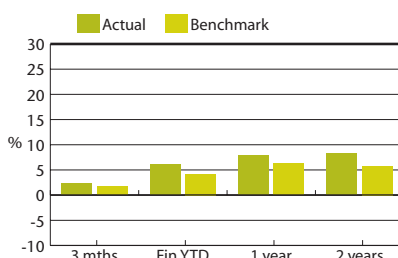
Property

Net returns	3 mths %	Fin YTD %	1 yr %	3 yrs % pa
actual	4.2	6.8	15.1	8.6
benchmark	9.5	14.9	28.8	15.4



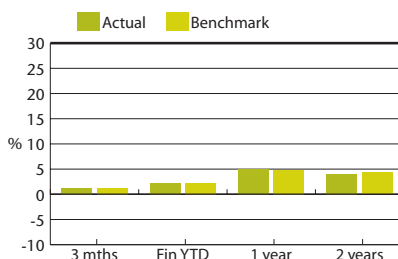
Diversified fixed interest

Net returns	3 mths %	Fin YTD %	1 yr %	3 yrs % pa
actual	2.3	6.1	7.8	8.3
benchmark	1.7	4.2	6.3	5.8



Cash

Net returns	3 mths %	Fin YTD %	1 yr %	3 yrs % pa
actual	1.2	2.3	5.0	4.0
benchmark	1.2	2.3	4.8	4.3



Specialist options

	3 mths %	Financial YTD	1 yr %	2 yrs %
AUSTRALIAN SHARES				
Alpha Australian Equity	11.2	15.2	22.9	17.3
AMP Sustainable Future Aust Share	10.1	16.0	25.3	19.2
BGI – Aust Alpha Equity	9.4	15.1	23.6	N/A
Colonial First State Imputation	11.6	16.4	22.9	16.2
Credit Suisse Aust Shares#	8.9	9.5	13.6	11.4
Deutsche Aust Equities Alpha	13.2	21.4	30.3	29.0
ING Australian Share#	11.1	17.5	23.3	16.7
ING Emerging Companies#	14.3	29.7	41.4	34.4
JFCP Aust Shares	11.0	17.1	28.3	20.1
Merrill Lynch Imputation#	9.4	15.0	22.8	15.6
Perpetual's Australian#	11.7	17.7	26.8	16.7
Perpetual's Industrial	11.7	15.7	28.1	20.9
SSgA Australian Equity Index	8.7	N/A	N/A	N/A
Vanguard Index Australian Shares^	9.3	13.2	24.2	16.3
INTERNATIONAL SHARES				
ABN AMRO Global Equity#	2.1	-6.4	0.0	-5.8
AXA Global Equity Growth#	2.0	-2.0	5.8	-0.4
Credit Suisse International Shares	3.4	-2.7	5.6	2.3
Fidelity Perpetual Japan^	3.3	-7.8	7.2	N/A
Fidelity Perpetual SE Asia^	3.0	3.5	5.8	9.5
Macquarie Global Small Companies	5.4	-0.6	11.9	11.1
MFS Global Equity#	3.8	-0.5	11.7	5.1
Platinum International	3.5	-0.2	8.7	11.6
SSgA International Equity Index	5.3	N/A	N/A	N/A
Vanguard Index International Shares^	3.4	-1.0	10.0	2.7
Wellington Global Research	4.6	1.0	8.8	-0.7
PROPERTY				
BT Property Investment#	10.1	15.6	30.3	18.8
HSBC Property Securities	9.7	15.3	28.3	16.6
SSgA Australian Listed Property Index	5.2	N/A	N/A	N/A
Vanguard Index Property Securities^	9.3	15.4	28.4	17.2
FIXED INTEREST				
BT Fixed Interest#	1.2	3.2	5.0	3.4
Macquarie Global Bond Solution	2.2	5.9	7.2	8.2
SSgA Index Aust Fixed Income	1.3	N/A	N/A	N/A
SSgA Index Global Fixed Income	1.8	N/A	N/A	N/A
Vanguard Index Aust Fixed Interest#	1.5	3.5	5.5	3.7
Vanguard Index Int Fixed Interest (hdg)^	2.0	5.1	6.9	N/A
ALTERNATIVE				
Coastal International Equity	-2.4	1.9	1.4	N/A
Coastal Magnum Div Performance	1.2	-0.2	2.7	5.5
Deutsche Strategic Value#	1.6	1.2	4.8	5.4
Warakirri Absolute Return	1.9	4.4	10.0	9.7
DIVERSIFIED				
BGI Diversified Growth	6.3	8.5	N/A	N/A
BGI Diversified Stable	3.6	5.7	N/A	N/A
BT Active Balanced#	6.6	8.9	17.8	14.0
Credit Suisse Capital Growth#	5.6	6.2	12.2	8.7
Credit Suisse Capital Stable#	3.3	4.9	8.4	7.2
HSBC Balanced#	6.2	8.1	15.3	10.9
HSBC Capital Stable#	3.5	4.9	9.3	6.7
ING Managed Growth	6.7	8.4	15.6	10.8
Merrill Lynch Balanced#	5.6	6.9	13.6	9.7
MLC Aggressive	7.4	8.8	N/A	N/A
MLC Assertive	6.5	7.1	N/A	N/A
MLC Moderate	5.9	8.3	N/A	N/A
MLC Conservative	3.1	4.4	N/A	N/A

Not available as a specialist manager option.
^ These funds have been terminated.

Spotlight on MFS

Massachusetts Financial Services (MFS) is one of America's oldest investment managers. Based in Boston, MFS began operations in 1923 and launched America's first mutual fund in 1924. MFS has total assets under management of around A\$200 billion.

An experienced global research team underpins MFS's success. The company has a team of over 50 research analysts based in Boston, London, Tokyo and Singapore. This broad geographic spread ensures strong local and regional knowledge. The analysts are divided into industry sector teams and their primary role is to gather and evaluate information on revenue, expenses, assets, liabilities and all the other financial aspects of companies operating in that industry.

The goal of the research is to identify:

1. Companies with sustainable earnings growth rates that are expected to outperform the market.
2. Companies that trade at a discount to the market and can be purchased at a reasonable price.

Applying this methodology, the total number of companies around the world in which MFS can invest is reduced to a "buy" list of approximately 300.

The "buying" is carried out by the Global Equity Portfolio Management team. This team has responsibility for constructing a portfolio of between 90 and 110 companies from the "buy" list. Risk is managed primarily by stock diversification but also by reference to a range of quantitative models. The models are a guide only and are mainly there to ensure the investment



(L to R) David Antonnelli, Chief Executive Officer; Marcus Smith, Portfolio Manager and Head of Research in Asia; and Ayako Mikami, Tokyo-based analyst, at the weekly meeting.

guidelines agreed with Aon Consulting are maintained.

The table shows that the portfolio has performed strongly compared to the MSCI World Index benchmark.

	MFS	MSCI	Out-performance
1 year %	13.34	9.46	3.88
3 years % pa	-2.75	-7.40	4.65
5 years % pa	0.60	-5.52	6.12

Source: BNP Paribas Securities Services

Investment commentary

The December quarter was a good one for investors, particularly those with share investments. It helped the 2004 calendar year end on a high note, with all the major asset classes producing healthy returns.

Australian shares again exceeded their long-term averages, recording 11.4% for the quarter and 28% for the year. The domestic economy has experienced more than a decade of economic expansion and continues to outgrow other major economies. All sectors produced strong positive returns, with Information Technology (20.7%) and Consumer Staples (15.5%) the two best for the quarter.

Consumer confidence and spending

remain strong due largely to a buoyant labour market and stable interest and inflation rates. However, recent softer figures for retail sales and building approvals have raised questions about the continued strength of the economy.

Significant merger and acquisition activity over 2004 lifted returns from listed property trusts. It was the best-performing asset class with 10.6% for the quarter and 32.2% for the year.

Overseas share market returns were a low 3.3% (MSCI ex Aust unhedged), reflecting the fall in the US dollar over the period. November saw the re-election of the Bush administration and this was well received by the US market, which returned 8.7% in local currency terms.

The fixed interest market produced modest returns. Domestic bonds returned 1.8% for the quarter and 7.0% for the year. Global fixed interest returned 2.6% for the quarter and 9.0% for the year (in Australian dollars). Major fixed interest themes for the quarter were higher short-term interest rates in the US and speculation about the fate of the US dollar.

Oil prices attracted less attention as they began to ease from peaks reached over previous quarters. Nonetheless, markets will continue to keep an eye on oil, as any further sharp price increases would be a major risk to the consensus outlook for continued stability in the overall economic environment.

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 and allowing for tax assumptions. Note that the benchmarks for the pre-mixed options are weighted according to the asset allocation for each option. The asset allocation pie charts show the specific weights for each pre-mixed option.

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.

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

Aon Master Trust voted “Rising Star”

The Aon Master Trust has capped off a very successful year by picking up SuperRatings’ prestigious “Rising Star” award. The award was announced during the gala dinner at the recent Association of Superannuation Funds of Australia (ASFA) conference in Adelaide.

The Rising Star award follows the Trust’s nomination as a finalist in the “Fund of the Year” category (Medium Corporate) at the Personal Investor magazine awards.

Jeff Bresnahan, MD of SuperRatings, said that the award was due recognition of the Trust’s progress over the past 12 months, during which it has doubled in size from around \$400 million to almost \$900 million.

“The award is a strong endorsement of the Trust’s investment performance, processes and product design,” said Steven Gaffney, Director, Superannuation at Aon Consulting.



Aon Director, Superannuation, Steven Gaffney (right) accepts the award from SuperRatings’ Managing Director, Jeff Bresnahan

Meet your support team



Steven Clarke is a Senior Client Relationship Manager with Aon Consulting. He has worked for Aon since 1986 and has 20 years’ superannuation fund management experience. Steven’s background includes administrative, operational and consulting roles and he established and developed the former Bain Hogg Client Master Trust (now absorbed into the Aon Master Trust). Steven has spent the past few years providing consulting services to corporate superannuation funds and managing Aon’s client relationship team.

What do you find most satisfying about your role in client management and business development?

Getting genuine feedback from my clients is the most satisfying part of the job – for better or for worse. I know that might sound odd but it means that you’ve developed a strong connection with your client and they are comfortable telling you the truth. If the feedback is good, then great. If it’s not, then we know what to improve to make their interaction with Aon a better one.

What are some of the challenges?

I think the greatest challenge is trying to balance work and home life. We know what our clients want and we know we can deliver it – we just need to manage our time so that we get the job done and keep the family happy.

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

More often than not, it’s investment related questions that seem to interest our members most. This is why we’re putting such a substantial effort into getting our education programme right.

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

That’s easy... good investment performance and simple explanations of complex topics. I can’t do much about the investment performance but I do have significant input into our member education programme. My goal is to make it easy to understand and interesting, which can be quite a challenge. My approach is to use plenty of case studies and worked examples.

How important is it to get out and visit clients?

On a scale of 1 to 10, it would be a 9.5. Our clients need to know who we are and what we’re about. But it’s even more important that we know who *they* are. This is a relationship-driven business and regular face-to-face contact is critical.

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

I have a wife and three boys aged 11, 9 and 7. Between them they swim, play footy, act, play guitar and go to the surf club. I’m a member of our local winter swimming club and in summer, it’s soccer. So while my hands are pretty full, all this activity means I have plenty of social functions to go to!

Co-contributions off to a flying start

With an estimated 215,000 people benefiting from a Government co-contribution in 2003/04, the co-contributions scheme certainly got off to a flying start in its first year of operation.

Initial figures from the Australian Taxation Office show that, for the 2003/04 financial year, co-contributions averaging \$510 per tax return will be made to around 215,000 eligible tax

payers. With enhancements made in 2004/05 (broader scheme eligibility and a higher maximum co-contribution of \$1,500) even more people are expected to benefit from the scheme in the future. For more information on the co-contribution scheme, go to the Australian Tax Office website www.ato.gov.au/super

Early access scam

If you're approached by an "adviser" offering you a way to get early access to your preserved super – beware! The Tax

Office and ASIC are warning against scam artists who are luring people under age 55 with false claims of being able to withdraw super or use a DIY (self-managed) super fund to pay off debts or make major purchases. Promoters of these scams have taken up to 20% in fees and, in some cases, have stolen their clients' super. By law, early access is only allowed in cases of severe financial hardship. If you need to claim early access on those grounds, talk to us about the conditions you need to satisfy.

The choice is yours... *from front page*

The default fund

Each employer must select a default fund to which it will make contributions for eligible employees who do not make a choice, or who are in the process of making a choice. If a Federal award applies and specifies a fund, the default fund must be that fund. Otherwise, the default fund must be an eligible choice fund. In either case, the default fund must provide members with a minimum level of death only insurance cover. The government has not yet finalised what this minimum cover will be.

The process

Standard choice form

Employers must give a standard choice form to each employee who is eligible for choice of fund. There is a 28-day deadline, so employees at 1 July 2005 must receive a form by 29 July 2005. The form must include details of the default fund and other information that is still under discussion.

Check participating employer requirements

Before making a choice, the employee should check the fund's participating employer requirements, and ensure the employer agrees to meet these requirements.

Employee chooses a fund

The employee records their chosen fund's name and contact details on the form, and returns it, together with confirmation that the chosen fund can accept the employer's contributions. The confirmation may be a letter from the fund. If the form is incomplete or unclear, the employer can reject the employee's choice. Employees can also make a choice by writing to their employer and requesting that contributions be made to the chosen fund.

Employer starts contributing to the new fund

The employer must start contributing to the employee's chosen fund within

two months of receiving the standard choice form. Penalties apply if an employer fails to do so. Employees can request a standard choice form and choose a new fund once every 12 months.

If you make a choice, your employer must pay your future 9% superannuation guarantee contributions into your nominated fund. Your employer may also decide to pay any other contributions it makes on your behalf into the same fund.

Note that choice of fund will not apply to contributions made before 1 July 2005. However, if you have an inactive account (ie no employer contributions have been made to the account for six months) you can transfer the money in that account to your chosen fund.

Should you change fund?

To answer this question, you should understand what your present fund offers and whether it is meeting your current and future needs. Perhaps you should seek financial advice to help you answer this question. If there's no good reason to change, there's nothing you need to do.

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