

Directions

May 2004



Welcome to the latest edition of Directions

The Aon Master Trust continues to grow strongly with good inflows over the past few months. We've still got our sights firmly on the magic \$1 billion under management by June 2005.

The Trust's investment performance has also been very good, with most of our investment options in the pre-mixed and sector categories performing well above benchmark.

Much of this good performance can be attributed to the quality of the advice the Trust receives from its investment consultant, Aon Investment Consulting. The team at Aon Investment Consulting conducts regular reviews to ensure our members have access to the very best investment managers.

We've introduced a new section to the newsletter which profiles a particular Aon Master Trust investment manager and outlines their investment approach and the benefits they offer members.

We're continuing to upgrade our website so don't forget to visit regularly and see what's new. And if you've got any feedback, suggestions or comments about this newsletter, please take a moment to send an email to contactcentre@aon.com.au

*Steven Gaffney
Director, Superannuation
Aon Consulting*

Spread the risk and the return will come

History tells us that returns will always vary between asset classes, which suggests that consistently higher returns will only be possible by picking the right investment managers in the right investment sectors.

History tells us something else. Picking the right managers in the right sectors is much, much easier said than done.

Consider the recent past. Only a year ago, the global fixed interest and local property markets were underpinning overall investment returns, while share markets continued to disappoint their supporters. Discussion was broadly focused on the long overdue turnaround in international share markets as global economic growth improved. But there was plenty of negative sentiment about as fund managers factored in the risks associated with further terrorism and the Iraqi war.

But the bears were wrong. In 2003, global economic growth improved to around 4% and share markets were up a very strong average of 25%. The Australian share market jumped 15%.

Just holding shares, however, was no guarantee of success. Within the share markets, there was marked under-performance in some of the larger stocks, where a lot of managers concentrate their portfolios. It was the small-cap or micro-cap stocks, and slightly lower-quality stocks, that have revelled in the recovery to date.

In the fixed interest market, the return on the most popular and well-known sector – government bonds – was zero. But other sectors within the fixed interest market, such as investment



Aon Consulting's Janet Torney

grade debt and emerging market debt, out-performed government bonds, giving the diversified fixed interest manager a much better result.

The Aon Master Trust's diversified fixed interest investment is spread across the entire fixed interest spectrum and this allowed it to significantly out-perform both the Australian and international government bond index.

Diversification means more than investing in just shares and fixed interest. It means spreading investments across asset classes, across sectors within asset classes, and across managers within those sectors. The Aon Master Trust has such diversification. Its pre-mixed options invest in all share sectors, diversified fixed interest, alternate assets, property and cash. As a result, the Trust has delivered performance 2% to 3% above its peer group average across most of its portfolios over the past year.

Getting the decision about how to effectively diversify an investment portfolio requires a huge amount of research and analysis. We are fortunate that we can call on Aon's specialist Global Research Unit to undertake the research necessary to make an informed decision.

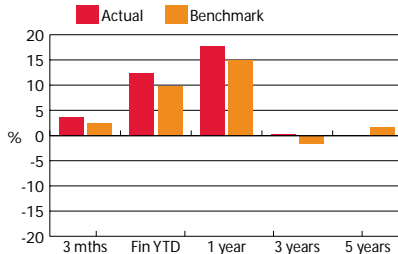
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aon master trust investment performance

Pre-mixed options

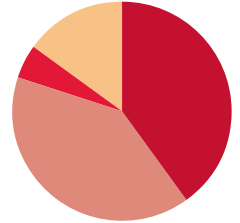
High Growth

Net returns	3 mths %	Fin YTD %	1 yr % pa	3 yrs % pa	5 yrs % pa
actual	3.7	12.4	17.8	0.3	N/A
benchmark	2.4	9.9	14.9	-1.6	1.7



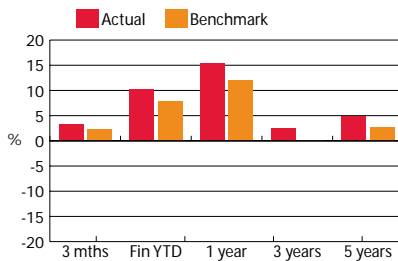
Asset allocation

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



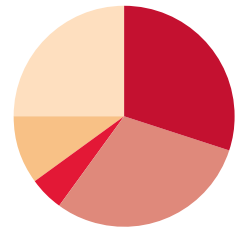
Balanced Growth

Net returns	3 mths %	Fin YTD %	1 yr % pa	3 yrs % pa	5 yrs % pa
actual	3.3	10.2	15.3	2.4	4.8
benchmark	2.3	7.9	12.1	0.1	2.6



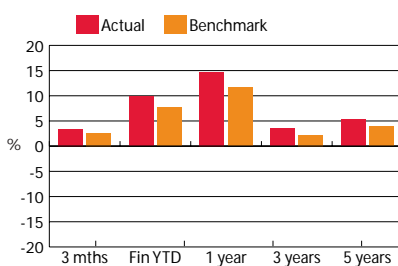
Asset allocation

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



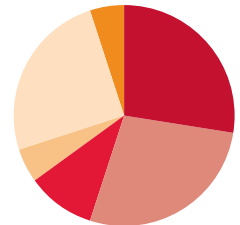
Balanced

Net returns	3 mths %	Fin YTD %	1 yr % pa	3 yrs % pa	5 yrs % pa
actual	3.4	9.8	14.7	3.5	5.3
benchmark	2.6	7.7	11.7	2.2	3.9



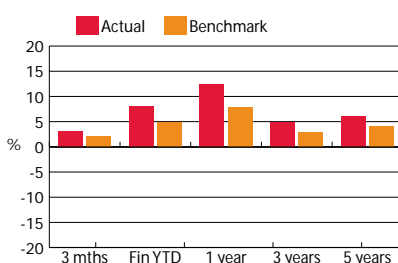
Asset allocation

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



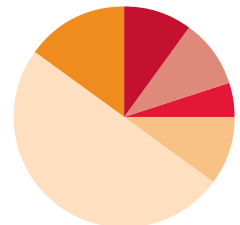
Capital Stable

Net returns	3 mths %	Fin YTD %	1 yr % pa	3 yrs % pa	5 yrs % pa
actual	3.0	8.0	12.4	4.9	6.0
benchmark	2.0	4.9	7.8	2.8	4.0



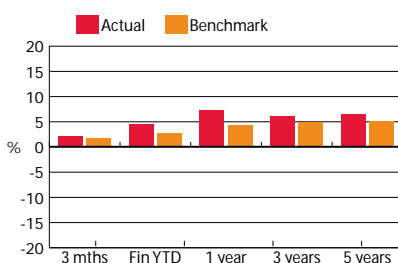
Asset allocation

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



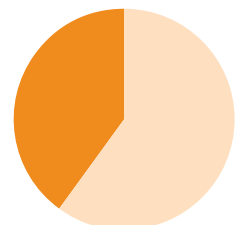
Secure

Net returns	3 mths %	Fin YTD %	1 yr % pa	3 yrs % pa	5 yrs % pa
actual	2.1	4.4	7.3	6.1	6.5
benchmark	1.6	2.6	4.2	4.8	5.0



Asset allocation

- Diversified fixed interest 60.0%
- Cash 40.0%



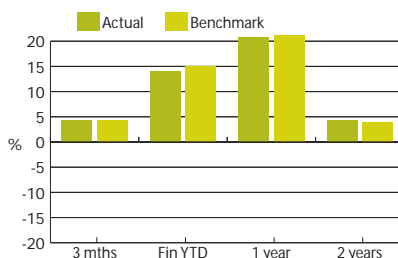
Performance to 31 March 2004

Sector options*

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

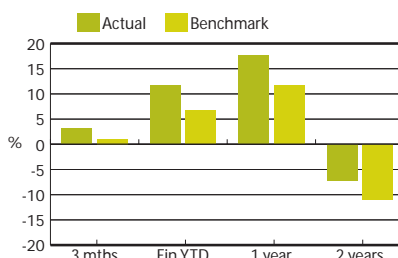
Australian shares

Net returns	3 mths %	Fin YTD %	1 yr %	2 yrs % pa
actual	4.2	14.0	20.7	4.2
benchmark	4.2	14.9	21.1	3.8



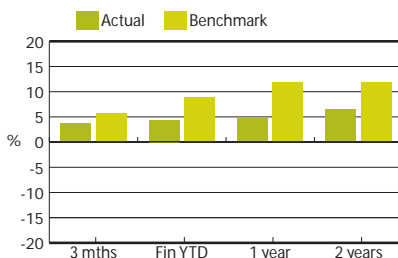
International shares

Net returns	3 mths %	Fin YTD %	1 yr %	2 yrs % pa
actual	3.1	11.7	17.6	-7.2
benchmark	1.0	6.7	11.7	-11.0



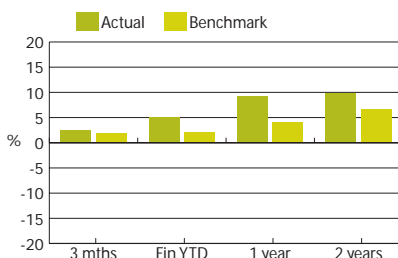
Property

Net returns	3 mths %	Fin YTD %	1 yr %	2 yrs % pa
actual	3.7	4.4	4.7	6.5
benchmark	5.7	8.9	11.8	11.8



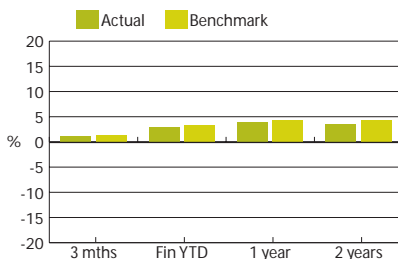
Diversified fixed interest

Net returns	3 mths %	Fin YTD %	1 yr %	2 yrs % pa
actual	2.5	5.1	9.2	9.8
benchmark	1.9	2.1	4.1	6.6



Cash

Net returns	3 mths %	Fin YTD %	1 yr %	2 yrs % pa
actual	1.0	2.9	3.9	3.5
benchmark	1.2	3.3	4.3	4.3



Specialist options*

	3 mths %	Financial YTD	1 yr %	2 yrs %
AUSTRALIAN SHARES				
Alpha Australian Equity	3.4	12.9	19.4	3.8
AMP Australian Share	4.2	12.5	17.6	2.7
AMP Sustainable Future Aust Share	4.6	13.2	20.8	5.5
BGI - Aust Alpha Equity Fund	4.3	6.7	5.8	N/A
Colonial First State Imputation	2.1	9.9	16.1	1.0
Credit Suisse Australian Shares	2.5	9.6	16.4	N/A
Deutsche Aust Equities Alpha	2.9	18.6	26.3	7.3
ING Australian Share	2.2	11.1	16.6	2.8
ING Emerging Companies#	5.3	27.0	39.3	7.1
JFPC Australian Shares	4.0	15.4	21.2	1.5
Merrill Lynch Imputation	3.5	13.3	19.2	0.5
Perpetual's Australian	4.3	11.6	14.9	N/A
Perpetual's Industrial	5.4	12.9	21.1	7.1
Vanguard Index Australian Shares	3.8	12.0	16.1	N/A
INTERNATIONAL SHARES				
ABN AMRO Global Equity	0.0	1.2	1.4	-15.5
AMP International Share	4.1	6.9	9.7	N/A
AXA Global Equity Growth#	1.0	1.7	2.5	N/A
Coastal International Equity	-1.4	N/A	N/A	N/A
Credit Suisse International Shares	1.7	7.3	11.1	-7.8
Fidelity Perpetual Japan	11.4	31.2	N/A	N/A
Fidelity Perpetual SE Asia	7.3	25.0	34.8	N/A
Macquarie Global Small Companies	4.9	16.6	23.3	N/A
MFS Global Equity	1.7	3.3	0.2	N/A
Platinum International	5.6	19.8	29.6	4.7
Vanguard Index International Shares	1.3	5.3	8.2	-11.2
Wellington Global Intersection	-0.4	3.1	5.6	-14.1
PROPERTY				
BT Wholesale Property	6.0	8.8	11.6	11.5
HSBC Property Securities	6.0	7.8	10.7	9.8
Vanguard Index Property Securities	5.7	9.0	11.5	11.5
FIXED INTEREST				
BT Fixed Interest	1.3	1.0	2.7	5.0
Macquarie Global Bond Solution	2.5	5.1	9.4	8.7
Vanguard Index Aust Fixed Interest	1.8	1.2	3.0	4.7
Vanguard Index Int Fixed Interest	2.4	2.5	2.6	N/A
OTHER				
Coastal Magnum Div Performance	2.9	6.6	7.8	N/A
Deutsche Strategic Value	2.8	4.3	7.4	N/A
Warakirri Absolute Return	4.2	8.1	10.6	6.0
DIVERSIFIED				
BT Active Balanced	3.7	12.6	19.2	1.1
Credit Suisse Capital Stable	2.2	5.5	8.6	N/A
Credit Suisse Capital Growth	2.8	7.6	12.8	0.0
HSBC Balanced	2.3	8.6	14.0	N/A
HSBC Capital Stable	2.0	4.8	7.7	2.7
ING Managed Growth	2.3	8.2	12.0	1.2
Merrill Lynch Balanced	2.7	8.7	13.0	-1.0

* 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.
Not available as a specialist manager option.

The investment environment

In short, the March quarter was a good one for all investors. Australian shares rose 4.7%, international shares (in AS) rose 1.2%, listed property trusts were up by 6.7% and Australian and international fixed interest rose by 2.0% and 3.1%, respectively.

The big question for share markets is whether the recent good form, which follows three years of negative returns, is sustainable.

Well, the investment markets are giving mixed signals. The mood in share markets is undeniably positive, which reflects better economic growth figures, stronger corporate profits, and increased takeover activity.

Fixed interest markets, however, are not quite as optimistic. The concern is more about the re-emergence of geopolitical risks in the latest quarter. There is also a view that economic growth, while improving, is still mild ... although on the plus side, this suggests that central banks are unlikely to raise interest rates too quickly – or too soon.

These somewhat different interpretations of the same information highlight the ongoing uncertainty within the investment community. In such an environment, investors must take some risk but at the same time, manage this risk to secure the best possible return.

Spotlight on Alpha Investment Management

In each issue of Directions, we will profile a particular Aon Master Trust investment manager and briefly explain how they operate and the benefits they offer to members. Sylvia Falzon, Head of Client Service & Operations at Alpha, kindly agreed to answer our questions.



Alpha's Sylvia Falzon, centre, in discussion with Aon Consulting's Nick White and Marnie Kingston.

Can you give me a brief summary of Alpha Investment Management?

Alpha is a 'boutique' active investment manager specialising in Australian shares. 'Boutique' managers are typically smaller specialist investment operations that concentrate on a single asset class or strategy. The company was launched in July 1998 as a joint venture between the Alpha management team and Babcock and Brown (a US investment bank) and each party owns 50% of the company. We currently manage AS\$2.8 billion on behalf of wholesale clients.

How many in the Alpha team?

Alpha has a team of eight experienced investment professionals – seven fundamental analysts/portfolio managers and a quantitative and systems analyst.

How many companies, on average, do you research?

Alpha manages a concentrated portfolio of 25 to 40 stocks, although we conduct research on the top 120 stocks. Around 80% of our out-performance comes from the Top 50 listed companies.

How would you describe Alpha's investment philosophy?

Our broad philosophy is that a 'semi-efficient' market provides opportunities to earn above-average returns. An 'efficient' market is one where the

theoretical valuation of a share price (which incorporates *all* available and relevant information into its price) equals its *actual* market price. The role of an active manager like Alpha is to take advantage of any difference between full valuation and market price. Alpha believes the market is efficient over the medium term but only semi-efficient over shorter periods, which presents opportunities to add value in excess of market returns.

What about Alpha's investment style?

Alpha's active investment style could be described as 'neutral' because we are neither a pure growth nor pure value manager in the traditional sense. 'Growth' managers look for companies with a strong business and profit outlook, while 'value' managers look for shares they believe are either under or overvalued compared to their current share price. Alpha concentrates on finding the right stocks, managing these stocks actively within the portfolio and 'skewing' or tilting the portfolio to suit market circumstances. The direction and degree of 'skewing' depends on a combination of the 'bottom-up' and 'top-down' analysis we conduct as part of the investment process.

(continued page 5)

Notes

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.

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.

Spotlight on Alpha (cont from page 4)

What do you mean by 'bottom-up' and 'top-down' analysis?

Alpha's 'bottom up' analysis refers to detailed research at company-specific level. It considers things like the company's debt levels, revenue and profit projections, operating margins, competitive position, management structure and stability. 'Top-down' analysis, on the other hand, is more 'macro'. It considers things like the impact of interest rates on the cost of capital, and the growth outlook for domestic, regional and international markets and economies. Both these styles of analysis play an important role in our investment process.

What drives Alpha's investment out-performance?

Our performance is not driven exclusively by stock selection. It's also influenced by the way we combine the stocks in our portfolio, and our ongoing management of the portfolio. So if you like, it's a three-pronged approach. The best test of our investment approach is to look at our long-term track record. Over the five years to 31 March 2004, Alpha has out-performed the S&P/ASX 200 Accumulation Index (a broad measure of the Australian share market's performance) by 5.4% per year. Alpha's investment objective is to out-perform this index by 3% pa over a rolling three-year period.

Meet your support team



Kate McCullen joined Aon Consulting six years ago after completing a Bachelor of Science majoring in Physics. She was the Team Leader of the Corporate Superannuation Administration area in Sydney, during which time she developed technical knowledge and client skills. Kate is currently a Client Relationship Manager looking after a portfolio of clients.

Q. What's the most challenging part of your job?

A. Keeping on top of the latest legislative changes and translating them to words that our employers and members can understand.

Q. What's the best thing about your job as a Client Relationship Manager?

A. This is a people industry and I'm lucky enough to have plenty of opportunities to speak with our members - although with over 50,000 members, I figure I'll be about 48 before I've spoken with each of them!

Q. What do the members of the Trust mostly ask you?

A. The most common questions are "How do I roll over my benefit to the Aon Master Trust?" and "What's the best investment option for me?"

I can answer the first question easily enough (see "Consolidate and save" article above) but for those seeking investment advice, I can only tell them that the best option for one person is not necessarily the best option for another person. Also, it's really important to get independent, financial advice from a licensed financial planner. And remember, superannuation is not the only investment members may have.

Q. In your opinion, what's the best feature of the Aon Master Trust?

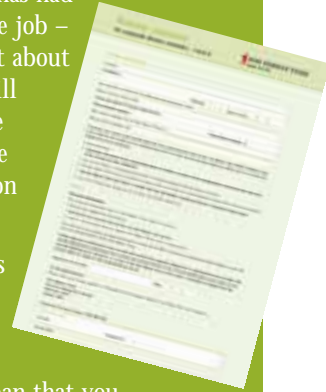
A. Well, I think there are plenty of good features but the one that stands out at the moment is the investment performance. Our investment consulting team spends most of their waking hours making sure the investment managers supporting our investment options are achieving the desired results, and it's pleasing to see that all their hard work is paying off for our members.

Consolidate and save

Anyone who has had more than one job – and that's just about everyone – will probably have more than one superannuation account.

Not only does this mean a steady inflow of paperwork, it can also mean that you have to pay the cost of maintaining these multiple super accounts.

The easiest way to avoid the paperwork and the cost is to consolidate these balances into one account. As a member of the Aon Master Trust, you can easily roll over your other account balances into the Trust by completing our Rollover authority form. The form is available from our website or alternatively, call the Customer Contact Centre on 1300 880 588.



Q. What is the Aon Master Trust service team, including you and your client relationship colleagues, doing to improve services to members?

A. One of the most important services we offer is our member education programme, and we are continuing to develop that all the time. The website is a key part of it; members have fact sheets, a benefit calculator, the latest investment returns, and general information on superannuation and investment all at their fingertips ... any time they want.

We also spend a fair amount of time on the road talking to members. Ultimately, we would like members to take greater control of their super, but to do this, they have to understand what drives investment markets and the economic cycle. I think we're making great progress in this area.

Get the facts with our online fact sheets

Keeping our members fully informed is one of our most important responsibilities. And with the high cost of printing and distribution firmly in mind, our website is playing an increasingly important role as a cost-effective way to communicate with members.

One of our most popular online initiatives is our fact sheets. These provide clear, plain English explanations of topics such as investing, taxation, insurance, retirement, financial planning, allocated pensions and so on. We regularly review the fact sheets to make sure they're accurate and up-to-date. Visit the website and take a look. You'll find the fact sheets under "Our Popular Pages" in the left-hand menu.



Contact centre goes live

Our new Customer Contact Centre is now officially up and running. Having a centralised enquiry centre manned by qualified staff means all enquiries we receive will be answered quickly and efficiently.

The new contact centre is an important part of the service and support facilities we offer to all members. This service also includes access to technology such as the Aon HR Portal Solution, a web-based, single entry point to a menu of HR self-service options.

The portal can be customised to provide tools and content like job application forms, links to benefit providers, financial planning and health care information.

Retirement income initiatives

The Government has recently announced nine proposals that it plans to incorporate into its Retirement Incomes Policy. The proposals have generated considerable discussion, although no draft legislation has been introduced at this time.

In brief, the proposals are:

1. Remove the work test for super contributions for those under age 65.
2. Simplify the work test rules for those over age 65.
3. More flexibility in the transition to retirement.
4. Introduce new "growth pensions"
5. Amend the assets test exemption for complying income streams
6. Introduce mandatory benefits for those over age 75
7. Preserve rolled-over employer eligible termination payments
8. Use ordinary time earnings as the universal earnings basis
9. Use actuarial certificates to ensure that asset values are not overstated.

The reaction from the business community and industry groups was mixed. The Investment and Financial Services Association (IFSA), the Australian Chamber of Commerce and Industry (ACCI) and wealth management company AMP welcomed the flexibility surrounding the transition from work to retirement.

However, both the Association of Superannuation Funds of Australia and the Australian Bankers' Association expressed concern that Australians are still not saving enough money for retirement, while welcoming the proposals as a step in the right direction.

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