

# Directions

November 2004



## Welcome to the latest edition of Directions

Two recent award nominations recognise the strong progress the Aon Master Trust has made over the past 12 months. SuperRatings has nominated the Trust as one of five finalists in the "Rising Star" category, while Personal Investor magazine nominated the Trust as a finalist in the "Fund of the Year" (Medium Corporate) category.

The Federal election has come and gone since our last issue and from a superannuation perspective, there's very little to report. The Coalition's superannuation program has been on the table for some time and its main features are implementation of the Choice of Fund regime in July 2005 and a reduction of the superannuation surcharge rate to a maximum of 7.5% by 2006-07.

Hedge funds have been flavour of the month for some time now but for many investors they are still a bit of a black hole. We asked Aon Investment Consulting's Janet Torney to explain.

Our website has had a makeover with a particular focus on member education. We've included two new online learning modules so if you're online, take a minute to visit the website and have a browse around.

You will have received your annual report and benefit statement recently so if you have any questions about the report and/or statement, please call our Customer Contact Centre on 1300 880 588.

Steven Gaffney  
Director, Superannuation  
Aon Consulting

## Behind the hedge fund boom



Aon Consulting's Janet Torney

The profile of hedge funds has risen sharply over the last few years as investors look for ways to manage low interest rates and volatile share markets. But a higher profile has done little to change the perception of hedge funds as confusing and complex investments. Is this a fair assessment, or have hedge funds been falsely accused? Aon Consulting's Head of Investments, Janet Torney, explains.

The past few years have seen a surge in the popularity of hedge funds. But despite their higher profile, hedge funds are still poorly understood and few investors appreciate the important role they can play in an investment portfolio.

In simple terms, hedge fund strategies try to produce positive investment returns. Typically, these returns don't follow the normal ups and downs of investment markets. This is in contrast to many traditional funds that simply try to "beat the market average".

For example, let's say you are invested in an Australian shares fund whose objective is to outperform the All Ordinaries Index (the standard measure of Australian share market performance).

If the All Ordinaries falls 10% but your fund only falls 8%, then the fund has beaten its benchmark and met its investment objective. *But your investment has still lost 8%!*

This very situation occurred during the difficult investment years of 2002 and 2003, when many investment managers outperformed their benchmark but their overall returns were still negative.

Hedge funds try to avoid this outcome by generating positive returns in *all* market conditions. Because they don't move in line with normal market movements, they can be used as part of a wider portfolio of conventional share, property and fixed interest investments to smooth out the volatility of overall returns from year to year.

The ability of hedge funds to produce positive returns in all markets – good and bad – can be a real benefit for investors. A 6% return when the market does 10% may not be a great result, but 6% looks pretty good when that same market records minus 10%!

Hedge funds try to generate positive returns in *all* market conditions

Hedge fund managers employ a wide variety of strategies to achieve

positive returns. 'Short-selling' equity managers, for example, aim to profit from falling share prices. 'Global macro' managers seek to exploit major economic or financial developments around the world that lead to big swings in asset prices and the opportunity to buy or sell for big gains. A 'merger arbitrage' manager looks for short-term profits in merger and takeover situations.

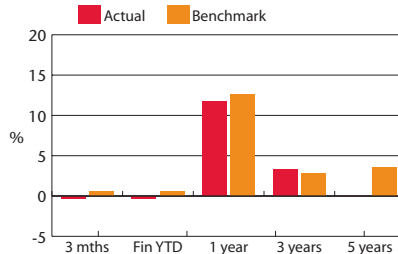
continued page 5

# aon master trust investment performance

## Pre-mixed options

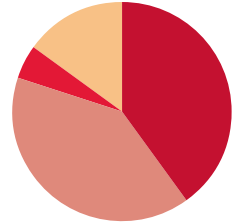
### High Growth

Net returns	3 mths %	Fin YTD %	1 yr % pa	3 yrs % pa	5 yrs % pa
actual	-0.3	-0.3	11.7	3.3	N/A
benchmark	0.6	0.6	12.6	2.8	3.5



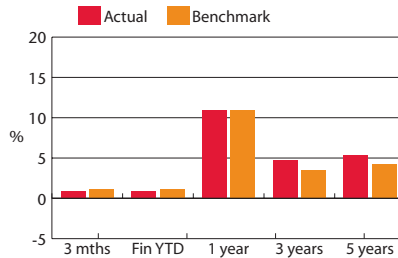
#### Asset allocation

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



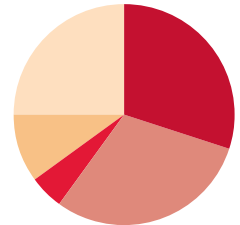
### Balanced Growth

Net returns	3 mths %	Fin YTD %	1 yr % pa	3 yrs % pa	5 yrs % pa
actual	0.9	0.9	10.9	4.7	5.4
benchmark	1.1	1.1	10.9	3.5	4.2



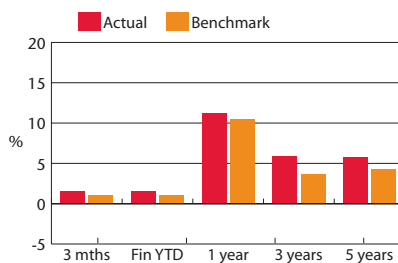
#### Asset allocation

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



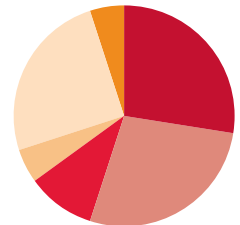
### Balanced

Net returns	3 mths %	Fin YTD %	1 yr % pa	3 yrs % pa	5 yrs % pa
actual	1.6	1.6	11.2	5.9	5.8
benchmark	1.1	1.1	10.5	3.6	4.3



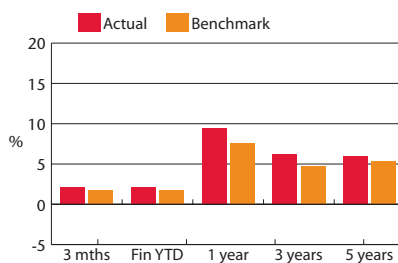
#### Asset allocation

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



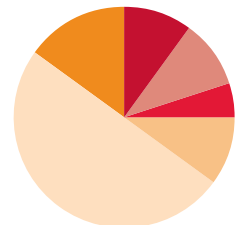
### Capital Stable

Net returns	3 mths %	Fin YTD %	1 yr % pa	3 yrs % pa	5 yrs % pa
actual	2.1	2.1	9.4	6.2	6.0
benchmark	1.8	1.8	7.6	4.7	5.3



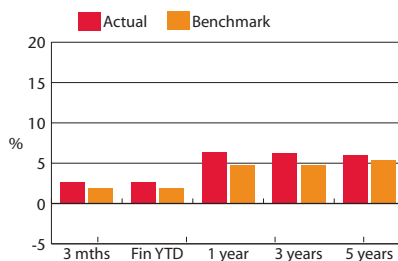
#### Asset allocation

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



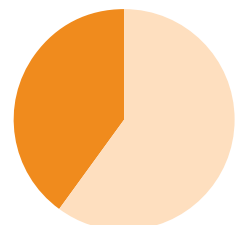
### Secure

Net returns	3 mths %	Fin YTD %	1 yr % pa	3 yrs % pa	5 yrs % pa
actual	2.7	2.7	6.4	6.3	6.0
benchmark	1.9	1.9	4.8	4.8	5.4



#### Asset allocation

- Diversified fixed interest 60.0%
- Cash 40.0%

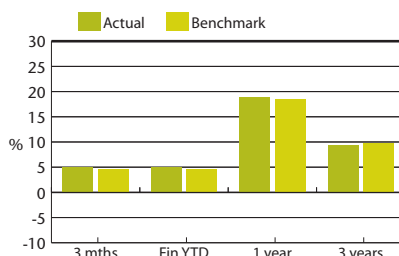


# Finance to 30 September 2004

## Sector options

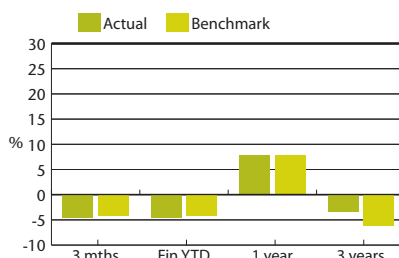
### Australian shares

Net returns	3 mths %	Fin YTD %	1 yr %	3 yrs % pa
<b>actual</b>	5.0	5.0	19.0	9.3
<b>benchmark</b>	4.6	4.6	18.6	9.7



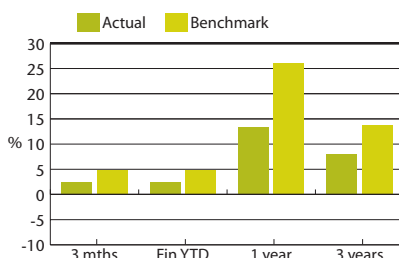
### International shares

Net returns	3 mths %	Fin YTD %	1 yr %	3 yrs % pa
<b>actual</b>	-4.5	-4.5	7.8	-3.3
<b>benchmark</b>	-4.2	-4.2	7.8	-6.1



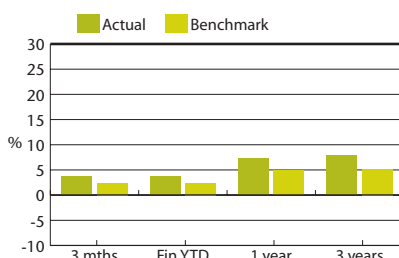
### Property

Net returns	3 mths %	Fin YTD %	1 yr %	3 yrs % pa
<b>actual</b>	2.5	2.5	13.3	8.1
<b>benchmark</b>	4.8	4.8	26.1	13.7



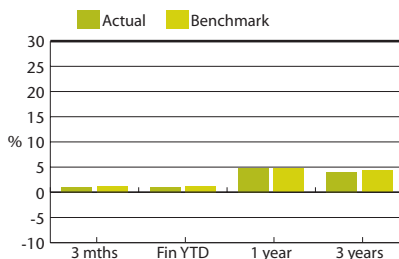
### Diversified fixed interest

Net returns	3 mths %	Fin YTD %	1 yr %	3 yrs % pa
<b>actual</b>	3.7	3.7	7.3	7.8
<b>benchmark</b>	2.4	2.4	4.9	5.2



### Cash

Net returns	3 mths %	Fin YTD %	1 yr %	3 yrs % pa
<b>actual</b>	1.1	1.1	4.8	4.0
<b>benchmark</b>	1.2	1.2	4.7	4.3



## Specialist options

	3 mths %	Financial YTD	1 yr %	2 yrs %
<b>AUSTRALIAN SHARES</b>				
Alpha Australian Equity	3.6	3.6	15.1	13.1
AMP Australian Share#	4.4	4.4	15.0	11.5
AMP Sustainable Future Aust Share	5.4	5.4	17.2	14.4
BGI – Aust Alpha Equity Fund	5.2	5.2	13.9	N/A
Colonial First State Imputation	4.4	4.4	14.7	10.8
Credit Suisse Aust Shares#	0.6	0.6	7.9	7.5
Deutsche Aust Equities Alpha	7.2	7.2	19.5	22.1
ING Australian Share#	5.8	5.8	15.2	11.9
ING Emerging Companies#	13.5	13.5	32.1	22.7
JFCP Aust Shares	5.5	5.5	20.4	14.0
Merrill Lynch Imputation#	5.1	5.1	17.0	12.0
Perpetual's Australian#	5.4	5.4	17.7	N/A
Perpetual's Industrial	3.6	3.6	18.4	14.9
Vanguard Index Australian Shares#	3.5	3.5	18.0	12.1
<b>INTERNATIONAL SHARES</b>				
ABN AMRO Global Equity#	-8.4	-8.4	-1.4	-5.0
AMP International Share#	-11.3	-11.3	-0.4	-1.3
AXA Global Equity Growth#	-4.0	-4.0	2.6	-0.4
Credit Suisse International Shares	-5.9	-5.9	3.9	3.5
Fidelity Perpetual Japan#	-10.7	-10.7	2.6	N/A
Fidelity Perpetual SE Asia#	0.5	0.5	6.4	N/A
Macquarie Global Small Companies	-5.7	-5.7	7.4	7.4
MFS Global Equity#	-4.2	-4.2	9.4	3.2
Platinum International	-3.6	-3.6	8.6	11.8
Vanguard Index International Shares#	-4.3	-4.3	8.2	2.6
Wellington Global Research^	-3.5	-3.5	6.4	-1.3
<b>PROPERTY</b>				
BT Wholesale Property#	5.0	5.0	25.7	16.4
HSBC Property Securities	5.1	5.1	25.3	13.7
Vanguard Index Property Securities#	5.6	5.6	25.2	14.6
<b>FIXED INTEREST</b>				
BT Fixed Interest#	2.0	2.0	3.9	3.7
Macquarie Global Bond Solution	3.6	3.6	6.9	8.8
Vanguard Index Aust Fixed Interest#	2.0	2.0	3.9	4.0
Vanguard Index Int Fixed Interest#	3.0	3.0	5.3	N/A
<b>ALTERNATIVE</b>				
Coastal International Equity	4.3	4.3	3.2	N/A
Coastal Magnum Div Performance	-1.3	-1.3	3.3	N/A
Deutsche Strategic Value#	-0.4	-0.4	4.2	3.7
Warakiri Absolute Return	2.4	2.4	9.8	8.9
<b>DIVERSIFIED</b>				
BGI Diversified Growth	2.1	2.1	N/A	N/A
BGI Diversified Stable	2.0	2.0	N/A	N/A
BT Active Balanced#	2.1	2.1	15.1	11.7
Credit Suisse Capital Stable#	1.5	1.5	7.7	6.0
Credit Suisse Capital Growth#	0.5	0.5	9.3	7.8
HSBC Balanced#	1.7	1.7	11.5	8.5
HSBC Capital Stable#	1.3	1.3	6.6	5.3
ING Managed Growth	1.5	1.5	12.1	8.2
Merrill Lynch Balanced#	1.2	1.2	11.0	8.5
MLC Conservative	1.3	1.3	N/A	N/A
MLC Moderate	2.3	2.3	N/A	N/A
MLC Assertive	0.6	0.6	N/A	N/A
MLC Aggressive	1.3	1.3	N/A	N/A

# Spotlight on BGI

In 2004, BGI was chosen as the InvestorWeb Research Fund Manager of the Year – 2004 and Diversified Funds Manager of the Year. InvestorWeb said that BGI's investment approach "is robust and capable of delivering excess returns across all market cycles". BGI was also chosen as the inaugural S&P Fund Manager of the Year. We spoke to BGI's Charles Genocchio about their approach to investment management.

## Can you give me a brief summary of BGI and what makes you different to other managers?

Barclays Global Investors Limited (BGI) is one of the world's largest fund managers. We manage A\$1.6 trillion in assets for over 2,500 global clients from 10 offices around the world. BGI manages money in a range of asset classes including shares, fixed interest, diversified funds, absolute return funds and currency.

Our main point of differentiation is our entire investment process rather than any particular component of the process. Our investment process starts with a sound global investment philosophy that we call total performance management. This philosophy gives equal consideration to all three dimensions of investment performance – return, risk and cost – and it underlies all of our investment strategies.

## How many people in the investment team?

There are 17 people in the Australian investment team and over 270 people globally. The investment team includes both researchers and portfolio managers.

## Can you tell us how you manage the Australian shares portfolios?

We try to earn above-average returns through pure stock research and selection only. We use a number of indicators to give us an insight into a stock's value. Changes to expected

earnings, for example, lead to changes to share price so we monitor earnings forecasts closely. We also use valuation models to assess each company's intrinsic value relative to its current market value and other similar companies from the same sector. We assess the quality company earnings based on balance sheet and income statement information. And we use information such as share price behaviour to forecast expected medium-term company performance. These variables are fed into our quantitative models to build a portfolio that has similar risk characteristics to the benchmark index, but with potential to earn consistently superior risk-adjusted returns relative to the benchmark.

## The BGI Equitised Long Short Fund is held in the Aon Master Trust's premixed and sector options. What does it mean to be "long" and "short"?

If you expect a share price to rise, then you buy it and hold onto it. This is known as "going long". "Going short" means selling shares you don't technically own in anticipation that their value will fall. When you "go short" you enter into a contract (with a lender of stocks) to sell a share at a fixed price, with the expectation that it can be bought back at a cheaper price when its value falls.

In a long-only fund, the only strategy available to a manager who has



Aon Investment Consulting's Marnie Kingston (left) and Nick White (right) with BGI's Charles Genocchio

a negative opinion of a certain stock is to not hold that stock at all. But in a long/short portfolio, the manager can produce excess returns in both a rising and a falling market.

## Investment commentary

The September quarter continued the theme of the last few quarters – a mixed performance across sectors but overall, a solid positive outcome for a diversified portfolio. The best sectors were Australian shares (up 5.2%), listed property (up 5.4%) and fixed interest (up around 3% for Australian investors).

International shares (unhedged) fell 5% and Australian investors in this asset class suffered from weak global share markets and a strengthening Australian dollar.

While local and US elections and the escalating oil price have shared recent headlines, their impact on investment markets has been markedly different. Neither election is likely to have a significant bearing on investment markets but the rapidly increasing oil price is another matter. The 77% jump in the year to October has dampened share markets in oil-importing regions (US, Japan, Europe) while boosting the fortunes of markets such as the Australian Resources sector.

*continued back cover*

## 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.

### Specialist options

# Not available as a specialist manager option.

^ Funds invested in Wellington Management Portfolios (Australia) Global Intersection Portfolio were transferred to Wellington Management Portfolios (Australia) Global Research Equity Portfolio on 11/03/2004.

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 ±2% of strategic asset allocations.

## Behind the hedge fund boom ...

*from front page*

Regardless of the particular strategies employed, most hedge fund managers aim for 'absolute returns'. In other words, they aim to deliver positive returns irrespective of the direction of the market.

There are risks in investing in hedge funds. For example, while they have the potential to produce higher returns in

soft markets, hedge funds may also produce lower returns in boom markets. And just like conventional investments, they can be volatile. But the important point is that their volatility is unlikely to correspond with the volatility in conventional asset classes and for this reason, they can make an important contribution to reducing investment risk.

The key message for hedge fund investors is to understand what you are investing in and the different risks involved. The best idea is to speak to a qualified financial adviser.

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

## Meet your support team



Sam Abishara joined Aon in May 1997, having worked in superannuation administration since 1993. In November 2001 Sam was promoted to Manager – Administration for the Melbourne office and was responsible for all aspects of fund administration and client services. In May 2004 Sam was appointed State Manager for South Australia with responsibility for client management and business development.

### What do you find most satisfying about your new role working in client management and business development in South Australia?

After 10 years working in administration it's an exciting change to now be at the coalface and assisting clients with their superannuation needs. We already have some great clients in South Australia and I'm looking forward to building on the strong relationships we have through our insurance broking division, Aon Risk Services.

### What are some of the challenges?

Governments are always looking at new ways to improve the superannuation industry (some would argue they've made it more confusing) and we've seen numerous legislative changes over the past few years. There are many

members who might not realise the full effect of these changes and ensuring our clients are well educated through regular communication and on-site seminars is always a challenge.

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

Choice of Fund seems to be the hot topic at the moment and I've been fielding numerous queries from both employer contacts and members as to how it will affect the superannuation industry. Whilst many people in the industry do not expect large numbers of members to transfer from their existing Fund, small corporate and master funds will be under increasing pressure to match the strong returns and additional services provided by the larger Funds such as the Aon Master Trust.

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

With Choice of Fund legislation being introduced at 1 July next year, the focus on investment returns and fee disclosure is now at the forefront of member's minds. A higher priority has also been placed on education and training. With greater flexibility now in the member's hands, it's now more important than ever to ensure members are educated enough to be able to make the right decisions that will affect their benefit at retirement.

### How important is it to get out and visit clients?

It's very important. To build a strong relationship with your clients you need to have regular face to face contact as you learn a lot more about them and their business needs than you otherwise would speaking on the phone or via email.

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

I love playing and watching sports and I spend most of my spare time playing cricket during summer and squash and racquetball during winter. But now that we've recently bought our first house I seem to be spending more time sanding, painting, digging and planting.

## Election post-script

In the wake of the Coalition's victory in the recent Federal election, there's very little superannuation news to report. As a reminder, the main features of the Coalition's superannuation program are:

- Reduction of the superannuation surcharge to a maximum of 7.5% by 2006-07;
- Implementation of the Choice of Fund regime in 2005;
- Continued commitment to allowing the splitting of super contributions between spouses;
- Provision of a new payment of \$200 a year for self-funded retirees;
- Removal of the work test to allow for non-working people under age 65 to contribute to a super fund;
- Simplification of the rules for contributing to super and paying out benefits for those aged 65 to 74.

*Investment commentary ... from page 4*

A higher oil price could contribute to global inflation, which could encourage the authorities to raise interest rates. *(Higher interest rates tend to slow down demand, which, in turn, slows down inflation).* But this outcome is by no means certain. In real terms (after adjustment for inflation) oil prices are still well below the peaks of the early 1980s.

A weaker US economy over the quarter is the wild card, and weakness in the consumer sector has raised concerns about share market returns. The US Federal Reserve is continuing to increase interest rates, albeit only modestly and from all-time low levels.

While the outlook is broadly positive, we emphasise the need for diversification to achieve a solid overall investment return.

## Website gets a makeover



Regular visitors to the Aon Master Trust website will have noticed some improvements to the appearance and layout of the site.

The home page has a fresh new look, and it also contains latest news, with "click" options for more information.

We've added a link to Aon SuperNews, a monthly update of superannuation legislation developments and proposals prepared by our legal team.

Our Member Education page has been upgraded and now includes two online learning modules called Introduction to Superannuation and Introduction to Investment. We've also updated and simplified our investment risk profile questionnaire and included a link to ASIC's superannuation projection calculator.

We're continuing to improve the site and add features all the time so visit regularly.

[www.aonmastertrust.com.au](http://www.aonmastertrust.com.au)

## Contacting us

**Customer Contact Centre**  
1300 880 588

**Fax**  
1800 010 435

**E-mail**  
[contactcentre@aon.com.au](mailto:contactcentre@aon.com.au)

**Post**  
Aon Master Trust  
GPO Box 9819 Sydney 2001

**Trustee**  
Aon Superannuation Pty Limited  
ACN 057 982 822  
AFS Licence No 237 465

Any advice in this newsletter is general in nature and has been prepared without taking account of your objectives, financial situation or needs. Because of that, you should, before acting on the advice, consider the appropriateness of the advice having regard to your objectives, financial situation and needs. This newsletter has been prepared by Aon Consulting Pty Ltd (AFS Licence No. 236667) a related body corporate of the trustee of the Aon Master Trust, Aon Superannuation Pty Ltd (AFS Licence No. 237465). This is a relationship that might reasonably be expected to be capable of influencing Aon Consulting Pty Ltd when the company provides financial product advice to clients in respect of the Aon Master Trust. Depending on the terms of the particular Plan, the Trustee may receive remuneration in respect of the superannuation interests that it issues. For providing personal advice that results in the issue of an interest in the Aon Master Trust, Aon Consulting Pty Ltd may receive remuneration from the Trustee. Employees and directors of Aon Consulting Pty Ltd are remunerated by way of salary, but may receive bonuses based on the quality and amount of services provided.