

Investment Commentary

- VERY FLAT 1st QUARTER
- \$A gaining strength
- Interest rates start to rise
- Tentative signs of recovery

CSSF results still holding up well

As at 31 March 2002, the CSSF Balanced Option had a marginally positive return (0.13%) compared to a median which was marginally negative (-0.3%).

The quarter was characterised by reasonably stronger economic results but flat share markets waiting to be convinced that the global economy was recovering from recession. It seems that markets are still concerned that not all of the economic problems of the past year or so are behind us.

Australia, of course, remains one of the stronger economies of the world at present – largely the result of the last 12 months housing demand, and the weaker \$A making our exports attractive to overseas buyers.

Consumer demand has also held up reasonably. A strengthening global economy will help to underpin ours, meaning that Australia will have escaped the global recession, fairly lightly. Over the past 18 months, for example, global markets have lost over 20%, whereas Australian markets have gained around 10%.

Welcome

We are very pleased to confirm that Geelong Grammar School has elected to transfer their Superannuation arrangements to CSSF as from 1 July 2002. A warm welcome is extended to all staff who join some 6000 colleagues, in YOUR Fund, for A LIFETIME OF GROWTH.

Summary of Articles

Investment Commentary	1
CSSF results still holding up well	1
CSSF is Expanding its Horizons.	1
The 2002 Federal Budget and Superannuation	2
Employer Contributions Increase to 9%	2
What does “Risk/Reward” mean?	3
Pick the Index Competition	4
Member Investment Options – Unit Price.	4
Lost members.	4

CSSF is Expanding its Horizons

The growing membership of our Personal Benefit Account (now over 1000) is obvious evidence that our Members are keen to leave their accumulated Account Balance with CSSF, on termination of employment. Many of these are teachers who have transferred to a “non-CSSF” School, where ongoing contributions are channelled to that School’s particular Super Fund.

We are currently in discussion with a number of schools, not currently participating in CSSF, in an endeavour to negotiate arrangements whereby Members of CSSF, on transfer of employment, can continue to have contributions directed to their Personal Account at CSSF. Several successful arrangements have already been concluded, and a listing will be made available, in due course.

In the meantime, if this is of interest to any Member, please ring Jane Hargreaves for details.



The 2002 Federal Budget and Superannuation

The Budget announcements on 14 May 2002 were largely a confirmation of the pre-election promises made by the Government last year. They can be summarised as follows:

Effective from 1 July 2002

- A \$3000 contribution can be made over any 3-year period on behalf of children under 18 by parents and grandparents. It appears that no tax deduction or rebate will apply to such payments. (This was previously announced as a tax deductible contribution of \$1000 pa).
- Personal and some employer contributions can continue to be made to age 75 (they previously had to cease at 70).
- A Government co-contribution of up to \$1000 pa will be available to match personal contributions by low income earners (up to \$20,000 pa assessable income). This will cut out once income exceeds \$32,500. (Replaces the current \$100 rebate on contributions for those earning less than \$27,000 pa).
- Preserved Benefits can be paid in cash to those who enter Australia on temporary entry visas and subsequently depart permanently. Legislation permitting this change has already been passed.
- The top rate of surcharge reduces from 15% to 13.5%.

Effective from 1 July 2003

- Superannuation Guarantee Contributions will have to be paid quarterly for any employee who is paid \$1350 or more in salary or wages for the quarter.
- Employer contributions can be split with an employee's spouse.
- The top rate of surcharge reduces from 13.5% to 12%.

Effective from 1 July 2004

- The top rate of surcharge reduces from 12% to 10.5%.

NB: With the exception of the provision for release of preserved benefits following permanent departure overseas, all other announcements still have to pass through Parliament. As with previous announcements, the end result could be quite different once legislated.



Employer Contributions Increase to 9%

As from 1 July 2002, Employers will be required to increase contributions in respect of the Superannuation Guarantee legislation from 8% salary, to 9%.

As covered in our Newsletter No. 13, this in itself will not enable members to accrue sufficient funds on which to retire comfortably. Additional contributions need to be made and the usual source of these is by "salary sacrifice". Most employers offer this facility and it is quite tax effective.

The number of members taking up this course of action has increased substantially over the past year or so and the trend is continuing – especially for those over 50 who see potential retirement "just down the track".

Our next hurdle, is to get the message to those 10 years younger, ie. members 40+. The earlier one can start to put money aside, the greater the end benefits will be. Our maths teachers will readily understand the effects of compound interest, over time – next issue we will show some figures to illustrate this.

What does “RISK/REWARD” mean?

Words mean different things, in different contexts.

To a layperson, the word “risk” in relation to investments conjures up thoughts of “losing all, or a substantial part of one’s asset.”

In superannuation parlance, the word “risk” is nothing like this. It refers to the “probability that the return will be outside the parameters that are expected.”

Assume:

- ▶ Manager A creates a portfolio of investments, which is expected to return 5-7% pa.
- ▶ Manager B creates a portfolio of investments which is expected to return 4-9% pa.
- ▶ Manager C creates a portfolio of investments which is expected to return 2-10% pa.

All of these have a “risk tolerance”, but we are not talking about the risk of losing all, or a substantial part, of your asset.

Compared to Manager A, Manager C has a much higher “risk/reward” tolerance – whilst returns could still be in the 5-7% range, as per Manager A, there is the possibility of a substantially lower (2%) or higher (10%) return.

Manager B, on the other hand, has created a portfolio which has a lower downside (only 1%) compared to Manager A, but has a higher upside (2%).

This is what each Member has to consider when selecting an Investment Option:

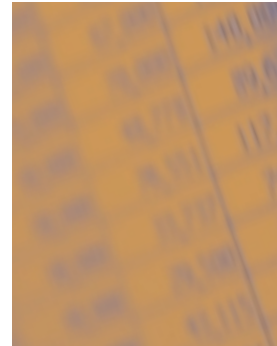
- ▶ Do you feel comfortable with the approach of Manager A (fairly safe, middle-of the road)?
- ▶ Would you prefer to aim to maximise your return as per Manager C, in full understanding that there is a wider margin of error?
- ▶ Or, would you prefer to follow Manager B, in an endeavour to achieve a higher return than Manager A, but at the same time, limit your downside?

The following table illustrates the above, using actual CSSF returns over the past 3 years.

	100% Balanced Option	50% Balanced Option 50% Australian Shares Option	100% Australian Shares Option
1999	9.0%	13.08%	17.1%
2000	10.0%	10.7%	11.4%
2001	5.1%	10.3%	15.5%

Past performance is, of course, no guarantee (or even indication) of future performance, and markets will always have a predilection to volatility, from time to time.

Members of CSSF would however, be the first to acknowledge the importance of education. The aim of this, and many of our other articles, is to bring a greater understanding of how the Superannuation Industry works, so that Members can use this knowledge to their advantage, in maximising their benefits, within whatever acceptable levels of risk each feels comfortable.



Pick the Index Competition

We're making a small change to our competition, in order to give everyone a bit more time to lodge their entry. The "target date" has been put back a month, from 30 June, to 31 July.

Our last Quarter's competition, to predict the S&P/ASX 300 Index closing figure at 31 March 2002 was won by **Noelene Groth** from **Geelong College**. The index was 3409.1 and Noelene's entry was the closest.

Here we go again.

As at 31st March 2002 the S&P/ASX300 Index was

3409.1

Fax this page before

15 July 2002 to Combined

Schools Secretariat (03) 9640 0787.

CSS S&P/ASX 300 Index Competition

NAME: _____

SCHOOL: _____

PHONE: _____

My estimate of the S&P/ASX300 Index as at 31 July 2002 is:

The winner will receive a voucher for an all-inclusive "Dinner for Two" at a 5 star Restaurant of their choice and a one year subscription to Personal Investment Magazine.

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Member Investment Options – Unit Prices

The following are the respective Unit Prices for each Investment Option, as at 31 March 2002.

	Unit Price		%
	31/3/2002	31/12/2001	Increase
Australian Shares	1.52308	1.50610	1.12
International Shares	1.03344	1.05728	-2.25
Fixed Interest	1.13241	1.13521	-0.24
Property	1.32254	1.29710	1.96
Balanced	1.26174	1.26014	0.13
Capital Stable	1.18452	1.18282	0.14
Ethical	1.27869	1.28125	-0.20
Cash	1.13656	1.13085	0.50

Lost members

Now that we are required, by Privacy Legislation, to forward Member Statements, and other mailings, to each Member's home address, it is not unexpected to find that a number of letters are being returned "Unknown at this Address".

Where Members are still employed, this does not present a problem as we can make contact, and update our records.

Where Members have left employment, the address on our records is our only means of contact. Sometimes the phone book is helpful, sometimes not.

In an effort to re-establish contact, a list of "Lost Members" is set out below. The close community within which our Members work is such that many may have friends who can help us with a new address or phone number. If you know anyone listed below, please let us know, or alternatively, let them know that we are "looking for them".

Member

Ms. Gail Longbottom
Mrs. Norma Panter
Ms. Jennifer Lipisitz
Mr. Peter King
Mr. A. T. Dickson
Ms. Catherine Evans
Mrs. Helen Kalbstein
Mr. Peter Holzer
Ms. Angela Pullbrook
Ms. Melinda Sawers
Mrs. Christine Gray

Former School/College

Caulfield Grammar School
Caulfield Grammar School
Leibler Yavneh College
Caulfield Grammar School
Flinders Christian College
Gippsland Grammar
Leibler Yavneh College
Caulfield Grammar School
Mowbray College
Beaconhills Christian College
MLC School Burwood, NSW