

Investment Commentary

- Good, positive year-end results
- Inflation remains low
- \$A remains high

Shortly after receipt of this Newsletter, members will be receiving in the mail their Annual Benefit Statements, together with the Fund's Annual Report for the year ended 31 December 2003.

Results for all Investment Options are shown overleaf. The majority of members participate in the Balanced Option which returned 6.6% for the year.

With inflation rising by 2.3% for the calendar year, a return of more than 4% in excess of the Consumer Price Index should be viewed with some sense of satisfaction.

If that real return above inflation can be maintained on a long-term basis, then the purchasing power of your retirement savings is not only maintained but also significantly increased.

Australian Shares was our best performing investment option, returning 12.4% for the year. Most investment analysts seem lukewarm in their enthusiasm for sharemarkets in the 2004 year, predicting modest rises but, even so, "protecting their back" by referring to factors such as:

- the upward trend of interest rates;
- the strong \$A affecting export-oriented companies;
- the bursting of the housing bubble affecting consumer confidence;

any or all of which reduce expectations.

Nevertheless, the general expectation appears to be that the sharemarkets will outperform other asset classes.

The good news for our members is that the Combined Fund has a diversified range of specialist managers, across the whole investment spectrum, which will, over time, provide enhanced returns with reduced risk and volatility.

To use an old turn of phrase, a good superannuation fund is not a "get rich quick" vehicle, but one where you can "get rich slowly".

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Understanding... Currency

We've all heard about the strong rise in the value of the A\$ against the US\$ – about how it hurts our exporters and lowers the cost of imports – but do you really understand the flow-on effects that ripple through the economy and affect you, even though you may not be aware of it?

In 2003, the international sharemarkets rose by around 25% but the average Fund Manager's "international" return to members was negative 0.08% because of the "currency effect" (Intech Survey of 62 Unhedged International Share Funds).

Combined Fund's International Share option returned 4.2% for the year.

A typical growth-oriented "Balanced Portfolio" returned 6-7% for the 2003 year (Combined Fund 6.6%) but the "currency effect" diluted this by an estimated 5%, according to an article recently published by InTech Financial Services.

When Australian investors invest in an asset in a foreign currency, they are purchasing exposure to both the asset and the underlying currency.

Example: *You, as an Australian investor, buy A\$100 of shares in a US stock. If the A\$ is worth 0.50 cents US and the shares are trading at US\$1, then you have bought 50 shares.*

If, in one year, the shares are worth US\$1.20 (a 20% appreciation), you would feel pretty happy.

If, however, the A\$ is now worth US 0.60 cents, the investment is still only worth A\$100!

If the value of the A\$ had fallen to 0.40 cents US, then the opposite would be the case – your 50 shares, valued at US\$60, would be worth A\$150!!

There are, of course, hedging techniques available which are another subject completely but, suffice to say, these are fairly expensive so most superannuation funds only hedge part of their holdings (very few fully) to keep the currency exposure within limits which are seen to be acceptable from a risk/volatility point of view.

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Understanding... Timing

“Financial Services” is one of the most competitive industries and, within that, the superannuation marketplace is a major source of activity. There is much money to be made by intermediaries, if they can persuade a client that “this product is better than that” because...

The reason put forward may sound quite reasonable (almost obvious) but, in reality, may be quite spurious.

In a previous Newsletter, we spoke of a Fund which promoted itself very strongly on the basis of offering a suite of over 100 investment options and talked down funds which had a smaller limited number of such options (Combined Fund has 8). In reality, there is substantial evidence to show that members have a greater chance of achieving improved returns by having a limited (but good) cross-section of options, than a wide-open portfolio covering every manager and asset, available in the marketplace.

Timing is another tool used by intermediaries to show how one Fund is performing better than another.

Consider four Funds, which are shown as returning (A) -7.1%, (B) -2.0%, (C) +6.2%, and (D) +6.6%. You would not need to

be a Rhodes scholar to see that Funds C and D are, on the surface at least, more attractive than Funds A or B.

All these returns are, however, only a snapshot of what was happening in investment markets at a particular point in time:

For Fund A – year ended 31 March 2003
Fund B – year ended 30 June 2003
Fund C – year ended 30 September 2003
Fund D – year ended 31 December 2003

In fact, these are not the returns of 4 different superannuation funds. They are simply the returns of the Balanced option in the Combined Fund at four different times of the year.

We all know that we must compare “apples with apples” but, unfortunately, many a wrong decision has been made in the financial services area, because of an investor being unaware that they are comparing returns over different “Timing” periods.

It is also important to consider returns over the longer term, rather than looking at any one year’s results.

Investment Returns to 31 December 2003

The majority of our members are “career-professionals” and, as such, will participate in returns over a substantial number of years. Short-term results are important but not as important as consistent long-term results.

The returns from each of our Investment options were as follows:

	2003 Year	Average last 5 years
Australian shares	12.4%	9.56%
International shares	4.2%	-3.19%
Ethical shares	6.1%	3.28%
Property	3.2%	7.95%
Fixed Interest	4.0%	5.08%
Balanced	6.6%	5.13%
Capital Stable	5.2%	4.89%
Cash	3.8%	3.91%

The last three years have been dreadful for superannuation fund returns, with the median Balanced/Growth Option returning 0.76% pa after allowing for administration expenses. The Combined Fund’s Balanced Option has averaged 2.3% over that same three year period – not something that one would “shout from the roof-top” yet, in the scheme of things, is the 4th best return out of 30 of the major managers. (Intech Survey of Growth Funds).

In the context that one can only “play the game as well as the conditions allow”, then the Combined Fund is handling those conditions as well as, if not better, than most.



Want \$1000 From The Government?

You or a member of your family may be eligible for a superannuation co-contribution of up to \$1000 in this current tax year.

Who is Eligible?

To receive the full \$1000 co-contribution for the year ending 30 June 2004, you must:

- have had contributions paid on your behalf by an employer at some time in that year;
- be a permanent resident of Australia;
- be less than age 71 at 30 June 2004; and
- have an assessable income (including reportable fringe benefits) for the year of \$27,500 or less.

A reduced co-contribution is available if your assessable income is greater than \$27,500 but cuts out at \$40,000 or more.

How Do I Get It?

Before 30 June 2004, you must make a personal contribution of \$1000 to your superannuation fund. Salary sacrifice contributions do not count.

If your assessable income is greater than \$27,500, you can still contribute \$1000 but the Government's co-contribution will be less.

The amount you must contribute to **maximize** the co-contribution is shown below. However, if you pay less than this amount, the Government will still match what you pay.

Assessable income for the year ending 30 June 2004 (including reportable fringe benefits)	Personal contribution you must make to receive a matching co-contribution*
\$27,500 or less	\$1000
\$28,000	\$960
\$29,000	\$880
\$30,000	\$800
\$31,000	\$720
\$32,000	\$640
\$33,000	\$560
\$34,000	\$480
\$35,000	\$400
\$36,000	\$320
\$37,000	\$240
\$38,000	\$160
\$39,000	\$80
\$40,000 or more	\$0

* The Government co-contribution reduces by 8 cents for every dollar of income over \$27,500.



How is the Co-contribution Paid?

You don't need to claim the co-contribution.

The Tax Office will determine whether or not you are entitled to the co-contribution after you lodge your tax return for the year ended 30 June 2004.

The appropriate amount of co-contribution will then be paid directly to your superannuation fund by the Tax Office.

Where's the Catch?

There is no catch. Like all other superannuation contributions, your personal contribution and the Government's co-contribution will be preserved for your retirement BUT both contributions:

- will not be subject to the 15% contributions tax;
- will not be taxed as an end benefit at retirement; and
- will not count towards your Reasonable Benefit Limit.

NB: The co-contribution is payable **in addition to** the 18% spouse contribution rebate. So, if your spouse is employed but earns less than \$13,800 for this tax year, he or she may receive up to \$1000 co-contribution and you can still claim a tax rebate on up to \$3000 of contributions you pay on behalf of your spouse.

If you are not eligible for this valuable benefit, your spouse or other family members may be.

Don't miss out – do something about it now!

All you have to do is pay the contribution. The Tax Office will do the rest.

For more information, contact your superannuation fund or ring the ATO Superannuation Info Line on 13 10 20.

Pick the Index Competition

Our last Quarter's competition, to predict the S&P/ASX 300 Index closing figure at 31 January 2004, was won by **John Ward** of **Newhaven College**. The index was 3278.9 and John's entry was the closest.

Here we go again.

As at 31 January 2004, the S&P/ASX300 Index was

3278.9

Fax this page before 15 April 2004 to Group Benefits Pty Ltd, the Administrator of the Fund on (03) 9640 0787.

GB S&P/ASX 300 Index Competition

NAME: _____

SCHOOL: _____

PHONE: _____

My estimate of the S&P/ASX300 Index as at 30 April 2004 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.

Member Investment Options – Unit Prices

The following are the respective Unit Prices, for each Investment Option, as at 31 December 2003 and, also, as at 31 January 2004:

	Unit Price		%
	31/12/2003	31/01/2004	
Australian Shares	1.57833	1.56466	(0.87%)
International Shares	0.85124	0.85676	0.65%
Fixed Interest	1.26685	1.27418	0.58%
Property	1.46689	1.47246	0.38%
Balanced	1.28439	1.28022	(0.32%)
Capital Stable	1.27046	1.27441	0.31%
Ethical	1.14734	1.14239	(0.43%)
Cash	1.21052	1.21494	0.37%

Is Your Bank Having A Lend Of You?

Significant cost savings may be made by switching your loan to another lending institution. However, shopping around can be very time consuming and you may not finish up with the best alternative.

We are pleased to announce a new facility for Combined Fund members with specialist loan advisers, Lakeside Consultants Pty Ltd.

For members of Combined Fund, Lakeside's personal service and professional advice is provided at no cost and we are confident that they can assist you in making an informed decision in relation to your home/investment loan facilities.

Every lending situation is different. There is no one institution which has the best deal for everyone, every time, for every set of circumstances.

That is why Lakeside have affiliations with over 30 lending institutions. These range from the bigger groups like ANZ, Westpac, Commonwealth Bank and Macquarie, through to the smaller players like St George and Suncorp Metway. Lakeside's aim is to save you the time and effort involved in researching what is often a complex and convoluted lending market.

For a **free, independent** analysis of your current Home/Investment Loan/s together with a comparison of the best products in the market, please contact:

Louise Syphers at Lakeside Consultants on (03) 9510 0788 or Louise@lakesideconsultants.com.au

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