Autumn Edition | March 2014

Blueprint *Update*

PARTNERING WITH YOU IN SECURING YOUR FINANCIAL FUTURE AND ACHIEVING YOUR LIFETIME GOALS.

Happy New Year

Welcome to 2014!

We hope you had a relaxing holiday and are now revitalised for a successful year ahead.

In this edition, we will be discussing the following topics:

- Super Threshold Update
- Market Update
- Asset Allocation

Market Update - Global Snapshot

Country	Index	Index 17/3/2014	% Change in 12 months
Australia	ASX 200	5,318	13.16%
USA	Dow Jones	16,066	14.68%
USA-Tech	Nasdaq	4,245	33.52%
UK	FTSE100	6,528	5.40%
Hong Kong	Hang Seng	21,539	1.05%
Japan	Nikkei	14,328	18.79%

Source: Bloomberg World Stock Indexes as at 17/3/2014

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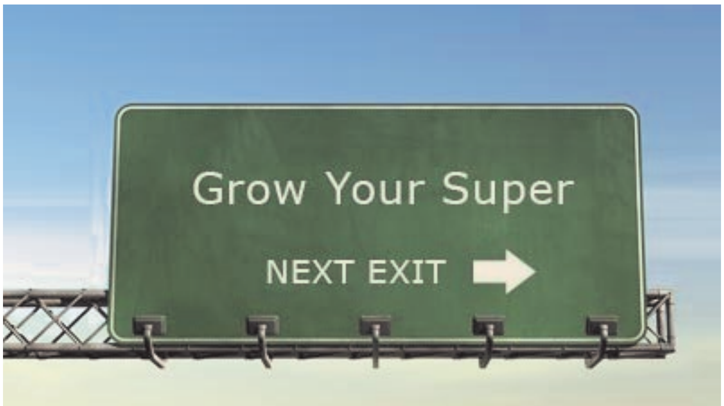
Super Threshold Update



The ATO has recently released the Super thresholds which will apply in respect of the 2014/15 financial year.

- Super guarantee rate – increase from 9.25% to 9.5%
  (The Federal Government has introduced legislation which, if passed by the Senate, will retain the SG rate at 9.25% for 2014/15 and 2015/16. If the legislation does not get passed, the rate will increase to 9.5%)

- Concessional contributions cap – increased from $25,000 to $30,000

- Concessional contributions are pre-tax contributions which may include your super guarantee contributions, your salary sacrificed amount to super and personal tax deductible contributions.

- Special Concessional contributions cap – remains at $35,000 but will apply to ***anyone turning age 50 or older in FY 2014/15***

- Non-concessional contributions cap – increased from $150,000 to $180,000. Non-concessional contributions are after- tax contributions.

- Bring forward of the Non-concessional contributions cap from the following 2 financial years – increased from $450,000 to $540,000

- Capital Gains Tax Non-concessional contributions cap – increased from $1,315,000 to $1,355,000 *(only applies to small business owners with various conditions met)*

- Low rate tax cap on super withdrawals provided a condition of release is satisfied– increased from $180,000 to $185,000

- Account-based pension minimum drawdown rates – no change:

Minimum annual payment	
Age	**2014/15**
Under 65	4%
65-74	5%
75-79	6%
80-84	7%
85-89	9%
90-94	11%
95+	14%

- Government Co-Contribution lower threshold – increased from $33,516 to $34,488
  This is the threshold above which the maximum co-contribution amount of $500 begins to taper

- Government Co-Contribution higher threshold – increased from $48,516 to $49,488
  This is the threshold above which the co-contribution will not be paid

Source: Super Central

Market Update

Investment sentiment in 2014 continues to favour growth assets over defensive/income assets. Record low interest rates in the developed economies and continued stimulus, although at a reducing level in the US, should be the catalyst to support the growth assets.

While investors should allow for more volatility in sharemarkets ahead, the broad trend in sharemarkets is likely to remain up, reflecting a combination of reasonable valuations, better earnings on the back of improved economic growth and easy monetary conditions helping to entice investors to switch out of cash and bonds and invest in shares.

Australian Economy and Share Market

February seemed full of bad news in Australia with layoffs coming from various companies, unemployment rising to 6% and very poor business investment intentions. And yet, the sharemarket rose 4.2% last month and has had two good years and December quarter GDP growth even perked up a bit. The December half profit reporting season just ended and overall results were solid:

- 50% of companies exceeded expectations (compared to a norm of 43%);
- 66% of companies saw their profits rise from a year ago, with strong results from miners and banks seeing overall earnings rise nearly 15% over the year to the December half, with a near 40% gain for miners. This compares to a 0.5% fall over the year to the June half;

- 64% of companies have increased their dividends from a year ago and only 13% have cut them. A year ago only 53% were boosting dividends. Aggregate dividends rose nearly 14% over the year to the December half; and
- 56% of companies have seen their share price outperform the day they released results.

- Based on the research done by Shane Oliver (AMP Economist), the outlook for the Australian economy is not nearly as gloomy as headlines of job layoffs and the end of the mining investment boom suggest.

The combination of rising economic growth and continuing low interest rates should underpin a pick-up in non-resources earnings growth over the year ahead, which in turn, should support further gains in the Australian sharemarket though investors should allow for more volatility in sharemarkets ahead.

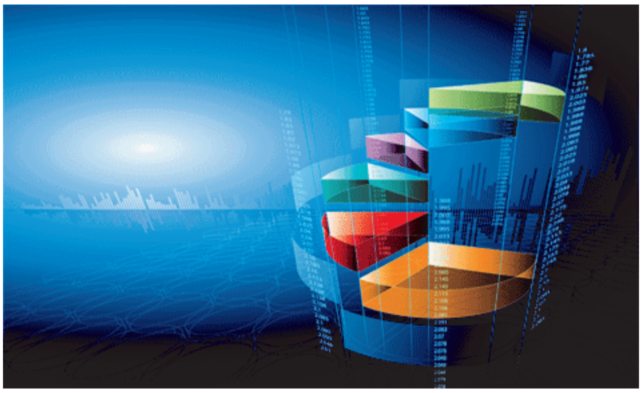
Opportunities are likely to arise in Australian sharemarket over the coming year as the economy stabilises. Investors who have been holding cash are likely to consider equities during the year as the return profile has become more attractive.

International Economy and Share Market

- US economic data continues to be weather affected. The overall impression remains that while poor weather is continuing to play havoc with US economic data, underlying conditions are ok.
- There was more good news in the Eurozone with the rising trend telling us the recovery is continuing and better than expected January retail sales and German factory orders.
- The recovery in Japan was highlighted by the continuing fall in Tokyo's office vacancy rate to 7%, from a peak of 9.5% in 2012.
- The Asian region continues to generate satisfactory GDP growth and should continue to be a major driver of world growth. A key factor for continued Asian growth is the increasing demand by China's consumers as they develop greater wealth and require ever increasing volumes of commodities and agricultural products, which should underpin the Australian resources and agricultural sectors over the long-er term. Chinese interest in Australian assets is increasing.

Sentiment in global equities markets remains positive providing opportunities for international shares to outperform in the coming year. A depreciating A$ v US$ (unhedged) is a further positive for international shares.

The critical role of Asset Allocation



Through the long, strong secular bull market that went from 1982 through to 2000 (or up to 2007 in Australia), the investment management industry increasingly moved away from worrying about asset allocation to focussing on manager selection at the asset class level. This partly reflected the times where most asset classes did well and so asset allocation was seen as less important and many thought it was too hard.

However, with the global financial crisis (GFC) and its aftermath of messy markets, coming after a decade of poor returns from global shares, the importance of a good asset allocation has been highlighted. As a result, asset allocation has made a comeback. This is likely to remain the case even as the global economy and financial outlook continues to heal. As a result, asset allocation will remain critically important for investors – particularly for those who can't take a long term approach and those looking to enhance returns.

What is asset allocation?

The return that a traditional fund or mix of assets generates will be a function of three things:

- The fund's medium to long term allocation to each asset class (such as cash, fixed interest, shares and properties) and the market return they generate – traditionally referred to as the Strategic Asset Allocation (or SAA);
- Any short term deviation in the asset mix from the SAA – this is known as Tactical Asset Allocation (or TAA); and
- The contribution from active management of the underlying asset portfolios. This is often referred to as security selection. It used to be done by one manager but increasingly a range of fund managers are being used.

After the GFC, the focus of asset allocation has shifted towards taking advantage of extreme swings in the relative performance of different asset classes through the business cycle. This approach, referred to as Dynamic Asset Allocation, sits between the short term trading focus of TAA and the medium to long term focus of SAA. Numerous studies have shown asset allocation is the key driver of the return an investor will get.

Going forward, asset allocation is likely to remain critically important for the following reasons based on the research of Shane Oliver (Economist):

- Firstly, medium term investment returns are likely to be relatively constrained with not all asset classes doing well.
- Secondly, the potential return range between the major asset classes is likely to be wide ranging.
- Thirdly, volatility is likely to be relatively high.
- Finally, bond and equity returns will likely remain negatively or lowly correlated, providing an opportunity for asset allocation to enhance returns by moving between the two.

Our approach to asset allocation is to allocate your funds in each asset class based on our assessment of the economic and market conditions and our client's risk profile. You can expect a greater level of dynamic asset allocation than is the case for traditional Asset Allocation approaches which may (but not necessarily will) mean large variations to Asset Allocation weightings away from Strategic Benchmarks. This is mindful of the overarching desire to meet our client's objective with the lowest possible risk and cost. The ultimate aim of our approach to asset allocation is to enhance our client's portfolio returns over the medium to long term.

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Source:
Dr Shane Oliver, Head of Investment Strategy and Chief Economist,
AMP Capital (March 2014)
McGregor Asset Consulting (February 2014)
Bloomberg World Stock Indexes