

Axis

MAGAZINE January 2008 | Financial food for thought



The generation nap

No matter what generation you were born into, you shouldn't be caught napping when it comes to making the most of your money.

Also inside:

- After the election – what does it mean to you?
- Market review and more...

Asgard

Axis

Financial food for thought

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Editorial

Generating wealth in 2008

Welcome to our first edition of Axis for 2008.

Does anyone know what happened to 2007? It's hard to believe another year has gone by. While it was a year of some volatility in financial markets the overall returns were generally positive. The best news in 2007 was the implementation of the new super rules, making saving for your future even more attractive.

While more changes or incentives could be introduced to our superannuation system, especially for younger people, our lead story makes the point that whatever your generation, there are always opportunities to improve your finances.

We've used margin lending or 'gearing' in one of our case studies to illustrate how it's possible to turbo charge your savings. While this strategy is being highlighted as a boost for 'Generation Y', gearing into super can also be an effective way to play catch-up for people who are close to retirement. This is definitely something you should speak to your



Bettina Pidcock,
Director, Marketing – Wealth

financial adviser about in 2008 (see our case study on page 4).

We start the New Year with a change of government. Our article 'After the election – what does it mean to you?' takes a look at the likely effect on your finances should the Rudd Labor government fully implement their key pre-election policies. It will take some time before the proposals see the light of day but, given their generally positive intentions, particularly for people with young families, it will be worth the wait - and worth discussing with your adviser of course!

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How did you do last year?

Your six-monthly investor report was enclosed with this magazine. And the answer to the question we just asked isn't as simple as it might seem.

We often receive calls about the 'Rate of Return' figures in investor reports. This is usually because people are trying to compare the Rate of Return figure shown at the beginning of their report with the fund manager performance figures at the back of the report.

These figures won't match because:

- the Rate of Return figure is a compilation of all the returns for each of your investments including cash and is a weighted average figure
- the fund manager returns shown in the Investment Performance and Objectives summary are for each individual fund only

And, if you've had any buy or sell transactions during this period this will further vary your Rate of Return when you compare this with individual fund manager performance figures.

If you have any further questions about your Rate of Return, don't hesitate to contact your financial adviser.

The Year of the Rat

In the Chinese zodiac, 2008 is the Year of the Rat. In ancient times, the rat was welcomed as a protector and bringer of material prosperity.

Perhaps it's not surprising then that the company that has grown into Asgard Wealth Solutions (Sealcorp) was born in the Year of the Rat (1985).

As the first sign in the zodiac, rats are regarded as great leaders, pioneers and conquerors. Rat people are also energetic and versatile and can usually find their way around obstacles and adapt easily to different environments.

Thankfully, the guys who started it all saw the limitations of a name like Ratcorp! ■



The weird world of money

The term "buck", relating to the slang for the U.S. dollar, originated from the Old West when buckskin was a common medium of exchange with Native Americans. Later as currency replaced the barter system, people still referred to a dollar as a buck. ■

"Money can't buy you happiness but it does bring you a more pleasant form of misery."

Spike Milligan

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If you don't yet have insurance, now is the time to apply. Our new insurance offering will be stronger and highly affordable. Talk to a financial adviser and get yourself covered. ■

The generation nap

No matter what generation you were born into, you shouldn't be caught napping when it comes to making the most of your money.

A lot of what you read about financial planning and investing seems to focus on the 'baby boomer' generation. They're the people who were born from just after World War II to around 1961. People who are now somewhere between 46 and 61. And somewhere between work and retirement.

That might be your generation or maybe it's your parents – or even your grand-parents. What we often forget is that making the most of our money is something for all of us, whatever our generation.

In this article we look at four generations – from people new to the workforce to those already out of it – and suggest one strategy you may find useful to improve your finances.

Under 30 and overwhelmed?

If you're under 30 you belong to 'Generation Y'. Gen Ys are now somewhere between 19 and 28 years old and most likely have 'boomer' parents.

In truth, Gen Ys aren't likely to be reading this article – unless someone has emailed it to them or they've stumbled upon it on the net. More than likely you're the parent of a Gen Y who, like all parents, wants to see your kids get off to a solid start in the world of finance.

If you are a Gen Y the idea of longer term investment might not be high on your list of priorities. You know it's important but you're probably feeling a bit overwhelmed by things like the rising cost of property and your ability to save a deposit on a home of your own. You're OK with the idea of saving but you're wondering how you'll ever scrape together enough. And in the meantime, prices keep going up. It's just all too hard, so why bother?

How about this for a reason to be interested? It's called a 'margin loan' and it's a way to get ahead faster. Our case study shows you how it works.



Note: You should be aware that while a margin loan increases your potential for greater returns it can also increase your risk. You should discuss the suitability of a margin loan with a financial adviser, accountant or broker before going ahead.

Case study

Sarah, a teacher and Jake, a policeman are 25 years old and want to save for a deposit for their first home. So far they've saved \$8,000 which is a good start, but well short of what they think they'll need. So they talked to their financial adviser about a margin lending strategy with savings gearing that would help them achieve their goal sooner.

Sarah and Jake invested their \$8,000 in managed funds and supplemented this with a \$10,000 margin loan. After reviewing their other financial commitments and levels of income, their adviser recommended a monthly contribution of \$500 of their own money, plus \$1,000 of borrowed funds.

After five years, it is projected that Sarah and Jake will have built a share portfolio of \$144,271, based on a year-on-year return of 10% pa*. After repaying the cost of the loan – approximately \$69,000 – the total of their savings and profits will have grown to around \$75,271. This is a return on equity of 100% over the five years** and a substantial amount to help them buy their first home.

Achieving a financial goal takes time but with a suitable savings and investment plan you can get there sooner.

* Example assumes an average growth in funds of 10% pa and is not necessarily indicative of future performance. Interest payments and fees are not included in this calculation.

** Earnings as a percentage of total client contribution.

Under 45 and over-committed?

Welcome to Generation X. If you're somewhere between 29 and 44, this is your generation. And you could be forgiven for thinking that with a mortgage to pay, kids to educate, car/s to run and all the other commitments that Gen X people typically have to worry about, there's no room in your budget to save for retirement.

Against a backdrop of rising interest rates, petrol prices and grocery items, any thoughts about topping up your superannuation might seem a little crazy.

Perhaps surprisingly then, there's a groundswell of support in the community, particularly from people under 40, for what is called 'soft compulsion' for super. Soft compulsion means making voluntary regular contributions to your super, typically in the order of an extra 1 per cent, or slightly more, of your annual wage.

The Association of Superannuation Funds of Australia (ASFA) carried out some research in September 2007 to

determine what working Australians thought about the idea of soft compulsion. Their findings revealed that almost 9 out of 10 people surveyed support this option as a painless and flexible way to boost their super.

This doesn't necessarily mean you have to look for that extra 1 per cent under a rock. A little extra can result whenever you receive a wage increase, earn a bonus or change jobs, for example. And, as our case study shows, it really does make a difference to your final super nest egg.

Consolidate first!

We can't go past a discussion about saving for retirement without reminding you how important it is to consolidate your super into one account. Multiple super funds can prove very costly in the long run, with your money often parked in low-earning accounts while being slowly eroded by fees. It might be a bit of short-term pain to consolidate, but it's certainly worth it for the long-term gain!



Case study

Matt is 38 and working full-time. He has recently had a pay rise, taking his annual gross salary to \$76,000. His partner has also returned to part-time work now that their two children are in primary school. Matt has decided to top up his 9% employer super contribution with regular contributions of his own.

The effect of Matt's 1% extra contribution can be seen in the table below. In the first year his super grows from \$50,000 to \$61,356 with this top up. By the time Matt is 60 (22 years later) he has lifted his super balance by a significant \$55,000. Imagine what 3% extra would achieve?

Year	Opening super balance	Super contributions incl. 1%	Annual Return*	Taxes	Closing super balance with 1%	Closing super balance - no extra	Salary*
1	\$50,000	\$7,600	\$5,760	\$2,004	\$61,356	\$60,645	\$76,000
3	\$73,926	\$8,141	\$8,207	\$2,452	\$87,822	\$85,426	\$81,413
5	\$103,165	\$8,721	\$11,189	\$2,986	\$120,089	\$115,598	\$87,212
10	\$206,655	\$10,358	\$21,701	\$4,809	\$233,906	\$221,820	\$103,580
15	\$371,941	\$12,302	\$38,424	\$7,609	\$415,058	\$390,551	\$123,021
20	\$631,960	\$14,611	\$64,657	\$11,890	\$699,338	\$654,964	\$146,110
22	\$772,921	\$15,652	\$78,857	\$14,176	\$853,253	\$798,018	\$156,517
25	\$1,036,582	\$17,353	\$105,393	\$18,412	\$1,140,916	\$1,065,259	\$173,533

* Assumptions: Superannuation return (pre-tax) 10%pa. Salary indexation 3.5%.

Under 60 and over-taxed?

Unless you've been stranded on a desert island for the last couple of years you'll have heard a lot about the benefits of superannuation. (You've probably got a really good tan and are completely stress-free but that's another story). There's been a lot written in the media, not to mention provided by us, about the changes made to super and why it's now such a good retirement savings vehicle.

Hopefully you've also heard about a particularly smart, tax-effective strategy that involves salary sacrificing into your super and is suitable for the 'baby boomer' generation. It's called 'Transition to Retirement' (TTR) and you could have been forgiven for overlooking it, given its bland and slightly misleading title.

Why the government couldn't make it sound more engaging is baffling. Perhaps unsurprisingly, less people than expected have taken advantage of TTR strategies. Maybe they should have called it 'Ice Your Cake'. If you're about to turn 55, or you've passed this milestone, you should get excited!

The title is confusing because it includes the 'R' word. It implies that you need to have stopped working to take advantage of the strategy. In fact you can keep working – full-time or part-time – with the only pre-requisite being that you've reached your 'preservation age' (at least 55 and up to 60, depending on your year of birth).

Case study

Josie is 55 and working full-time. She earns a gross salary of \$76,000 p.a. and has \$350,000 in super, including after-tax contributions of \$100,000.

Josie is eligible to commence a TTR strategy where she follows these steps:

1. Salary sacrifice \$38,000 p.a.
2. Transfer current super to a non-commutable allocated pension (also called a 'pre-retirement' pension).
3. Draw pension income required to remain in the same after-tax position.

The table highlights the benefits of implementing this strategy. Of the \$29,400 pension payment, \$8,400 is tax-free and Josie gets a 15% tax rebate on the balance – an effective rate of only 16.5% (including Medicare). There's no tax payable when she reaches 60.

	Do nothing	Implement strategy
Gross income	\$76,000	\$67,400
Tax payable	\$18,640	\$10,035
Net income	\$57,360	\$57,365
Super balance	\$377,046	\$40,782
Pension balance	-	\$345,100
Net balance	\$377,046	\$385,885
Balance at 65	\$720,248	\$870,639

Comparing the two columns you can see that for the first year Josie enjoys the same net income with a lower gross income (\$38,000 salary plus \$29,400 pension, a total of \$67,400) because she pays less tax overall. Her overall net balance is higher and improves significantly by the time she reaches 65.



Under 75 and over-tested?

Now that we've got the young ones sorted, what can we suggest for the generation of 'pre-boomers'?

There was a lot of noise about changes to superannuation in last year's Federal Budget – and for good reason too. Who wouldn't feel good about their superannuation pension being tax-free once they turn 60?

One of the changes that might have been lost amid the sounds of super celebrations related to Centrelink's asset test rules. From 20 September 2007, the pension 'taper rate' on assets was reduced by 50 per cent. The taper rate is the reduction that is applied to your Age Pension entitlement where your assets exceed a certain amount (see the accompanying table showing the change in thresholds from 20 September).

Under the new rules, the Age Pension taper rate has been reduced from \$3.00 to \$1.50 per fortnight for every \$1,000 of assets you own over the limit – whether you're single or a couple. This means you'll be able to own more assets and still be eligible for the Age Pension. If you're already receiving the pension this may now be higher. If you were previously ineligible you may be pleasantly surprised.

If the asset test changes slipped under your radar why not speak to your financial adviser? Some good planning advice could lead to an increase in your income! ■

Maximum asset thresholds		
	Before 20 September 2007	From 20 September 2007
Single homeowner		
Current assessable assets	\$343,750	\$529,250
Couple homeowner		
Current assessable assets	\$531,000	\$839,500

Case study

Arthur and Guinevere are both 65. Their income from an allocated pension of \$450,000 is \$30,000. With personal effects and cash of \$25,000, their total of \$475,000 in assessable assets made them ineligible for the Age Pension.

After 20 September 2007 the new asset test rules entitle them to an Age Pension of \$14,203. This, combined with their allocated pension, gives Arthur and Guinevere a new annual income of \$44,203.

“Under the new rules, the Age Pension taper rate has been reduced from \$3.00 to \$1.50 per fortnight for every \$1,000 of assets you own over the limit – whether you're single or a couple.”



After the election – what does

In this post-election brief, our technical ‘messiah’, Bryan Ashenden discusses the major announcements made by the Labor party during the recent campaign and the possible impacts on your finances.

More tax reductions

The Labor party supports the personal tax cuts announced in the 2007 federal budget and intends to make further reforms over a six-year period.

The main impacts are:

- By 2013–14, we will have a personal taxation regime with only three marginal rates – 15 per cent, 30 per cent and 40 per cent.
- An increase in the low income tax offset will eventually lift the effective tax-free threshold from \$11,000 to \$20,000 by 2013-14.

The proposed changes are summarised in the table below.

These significant reforms will increase your level of disposable income (after tax). What will you do with this extra money?

Help with education expenses

Labor has announced the introduction of an education tax refund. Eligible parents will be able to claim:

- a 50 per cent refund each year for up to \$750 of education expenses for primary school children (a maximum benefit of \$375 per child per year),
- a 50 per cent refund each year for up to \$1,500 of expenses for secondary school children (a maximum benefit of \$750 per child per year).

Families in receipt of Family Tax Benefit (Part A) will qualify for this refund and eligible expenditure will cover costs associated with:

- laptops
- home computers and associated costs
- home internet connections
- printers
- education software and
- student school books

Importantly, this measure has been described as a refund, not a tax deduction, which means that all eligible people will receive the same potential benefit, rather than the

value of it differing depending on your marginal tax rate.

Assistance with child care costs

The child care tax rebate will be lifted to 50 per cent, covering a maximum of \$7,500 per child per year of child care costs. Also, investments will be made in having more child care centres available at education sites, such as TAFE and University, allowing parents to train to re-enter the workforce if they so desire.

This increase in both the rebate and availability of child care centres may lead to higher levels of disposable income for your family. Might be a good time to seek some investment advice!

Boosting your first home deposit

To help people more effectively save towards a deposit on their first home, Labor have announced they will introduce First Home Saver Accounts (FHSA), available to people over 18 who meet the eligibility criteria for the First Home Owners Grant (FHOG).

Trimming your tax: the 6-year plan

Current		From 1 July 2008		From 1 July 2009		From 1 July 2010		From 1 July 2013	
Taxable income	Rate	Taxable income	Rate	Taxable income	Rate	Taxable income	Rate	Taxable income	Rate
0- \$6,000	0%	0- \$6,000	0%	0- \$6,000	0%	0- \$6,000	0%	0- \$6,000	0%
\$6,001 - \$30,000	15%	\$6,001 - \$34,000	15%	\$6,001 - \$35,000	15%	\$6,001 - \$37,000	15%	\$6,001 - \$37,000	15%
\$30,001 - \$75,000	30%	\$34,001 - \$80,000	30%	\$35,001 - \$80,000	30%	\$37,001 - \$80,000	30%	\$37,001 - \$180,000	30%
\$75,001 - \$150,000	40%	\$80,001 - \$180,000	40%	\$80,001 - \$180,000	38%	\$80,001 - \$180,000	37%	\$180,001+	40%
\$150,001+	45%	\$180,001+	45%	\$180,001+	45%	\$180,001+	45%		

it mean to you?



Bryan Ashenden
Head of Technical Consulting
Asgard Wealth Solutions

The FHSA will be a superannuation style account, although it will operate independently of any super account you may have. Up to \$10,000 (indexed annually) can be contributed to the account, with:

- a maximum of \$5,000 (indexed) being contributed from pre-tax income. This will operate like a superannuation salary-sacrifice arrangement, with 15 per cent tax being deducted from these contributions; and
- the balance able to be contributed from after-tax contributions. This may be made by you or a third party.

Earnings in the account will be taxed at the superannuation rate of 15 per cent. If invested in shares paying franked dividends, the FHSA will receive the benefit of imputation credits, reducing the effective rate of tax payable.

And because the post-tax contributions can be made by third parties, it's a way for parents (or grand-parents) to be able to provide some assistance to children (or grand-children) in a tax advantaged method with some certainty on how the money will be spent. Future contributions could be specified in a person's will - to be made to the FHSA of specific beneficiaries once they turn 18.

Super's still simpler

The Labor party supported the 'Simpler Superannuation' reforms that have been in place since 1 July 2007. Other initiatives have been mentioned by Labor regarding superannuation and its operation.

A centralised clearing house

Rather than employers making super guarantee payments to different superannuation funds for different members, Labor has proposed the establishment of one central clearing house to receive these payments then distribute these amounts to the relevant funds for each employee.

The operation of this account may make it easier for you if you change jobs, as your choice of fund election is always made to the one clearing house, rather than potentially changing each time you change employment.

Changes to superannuation guarantee arrangements

There is general agreement that the current 9 per cent super guarantee (SG) level is insufficient to allow Australians to be truly self-funded in retirement and that 15 per cent of annual pre-tax income is a more appropriate level.

The Labor Government has said before that it would look to increase the SG to 15 per cent, with the increase funded by employers (lifting the SG requirement to 12 per cent) and employees (by introducing a compulsory personal component of 3 per cent).

However the cost of this measure would be significant and unlikely to be introduced by a Labor Government, at least not in its first term in office.

What is expected is a change to how the SG requirement is calculated. Currently, SG is payable only on the 'cash component' of your wage - that is, after reducing a base salary for

any salary packaged amounts. It is anticipated that SG will become payable on a base salary amount before any packaging is done.

This change would not only help you build your superannuation savings, but would also make it easier to understand and to ensure consistency between employers as to how SG liabilities are calculated.

More allowances

Labor has also announced its intention to introduce:

- a quarterly Utilities Allowance of \$125 to older Australians in receipt of income support payments like the Age Pension and Veterans Service Pension. This equals a total annual payment of \$500 for singles and couples;
- a similar payment for people receiving Carer Payment or the Disability Support Pension. This equals a total annual payment of \$500 for singles and couples;
- a quarterly Seniors Concession Allowance of \$125 per person to eligible self-funded retirees. This equals a total annual payment of \$500 for each eligible individual.

Conclusion

It's important to remember that none of these measures have yet been legislated and it is not expected that Parliament will resume until early in 2008. The constitution of the Senate will also be important in relation to the passage of new legislation, with the Coalition still retaining its Senate majority until 1 July 2008.

Market review and outlook

The first half of 2007 witnessed a sharp rise in commodity prices, higher headline inflation, strong growth in emerging markets and continued weakness in the U.S. residential property sector.



Felix Stephen
Senior Strategist,
St. George Investment Solutions

The second half of the year was dominated by investment bank losses surrounding US subprime markets, a dysfunctional global credit market and unconventional and innovative attempts by global monetary authorities to help prevent a global financial market meltdown.

Asset class performance

It was a disappointing 12 months for growth assets as gains made in the first half of 2007 were eroded when investor risk averseness and a near dysfunctional credit market saw risky assets fall sharply towards the end of the year. The A\$ strengthened throughout the year against all major currencies. This led to unhedged international investments underperforming international equities in local currency terms. Both global and Australian bonds produced modest returns over the 12 month period despite tight credit conditions and most major global central banks cutting cash rates.

International equity markets proved disappointing during 2007 both in local currency terms and on an A\$ unhedged basis. The gains made in the first half of 2007 were eroded in the

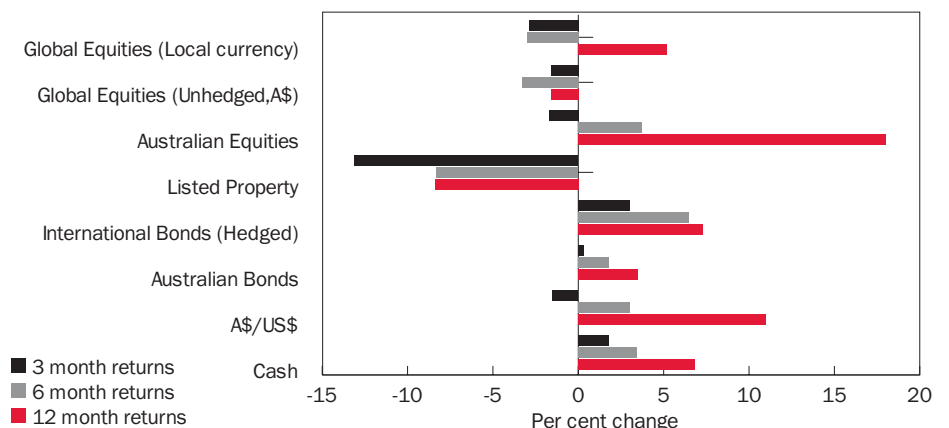
second half as a slowing global growth outlook weighed on equity markets. In local currency terms, global equities gained 5.2% whilst in A\$ terms, global equities declined 1.6%. The difference in performance between these was attributed to the rise in the A\$.

Domestic equities performed strongly over 2007 with a return of 18.0% for the 12 months. The first 6 months were supported by corporate merger and takeover activity and high corporate earnings, whilst the latter half saw the US sub-prime mortgage crisis lead to a cautious tone in the market, returning 3.7% in this period.

Fixed interest markets had a modest 12 months. Yields moved higher in the first 6 months and peaked by mid-year. This was followed by declining yields for the rest of 2007 as concerns over the impact of the US sub-prime mortgage gave bonds a safe haven status. Yield curves began to steepen as several central banks cut their official cash rates and continued to inject liquidity into money markets. Inflation concerns kept long-term yields higher.

Over 2007, the JP Morgan Global Government bond index returned a modest 7.3%. The Australian bond

Chart 1 – Asset class performance to December 2007



market took its lead from the global market with two interest rate hikes by the Reserve Bank leading to the UBS Warburg Composite Bond index posting a modest 3.5% return over the 12 month period.

The listed property sector performed poorly, recording a fall of 8.4% for the 12 months. Tight credit conditions took their toll on several geared listed trusts with indications that credit facilities would not be renewed leading to concerns of potential forced property sales. A fall in investor enthusiasm led to significant price falls within this sector.

Financial asset market outlook

Australian shares

We are positive about domestic equities as a good asset class for investment over the next few years. The earnings yield of the S&P /ASX 200 and the high dividend yield offers investors a superior return over the Australian 10 year sovereign bond. It is likely that overall, large cap growth stocks will do well during this phase of the economic cycle, with sector and stock selection being crucial to successful investing.

In the shorter-term, defensive sectors such as healthcare, telecom, utilities, banks and consumer staples should do well, while in the medium to long-term, sectors such as resources, materials and energy should do well. On a medium to long-term basis, changes made to super benefits and investments by the 'Future Fund' should benefit the Australian equity market.

International shares

International equities offer their cheapest valuations in more than 30 years. Once markets stabilise and investor risk appetite returns, investors who are presently holding on to 'cash' balances as safe haven investments will most likely diversify their investments away from cash and towards more risky assets. Equities tend to benefit from this increase in investor risk appetite. On a country basis we believe US and Japanese stocks should perform better. We expect total returns in the USA and Europe to be around 10%, around 13% in Japan

and 20% to 25% in emerging equities. We expect 'growth' to outperform 'value' in the medium-term as growth is less exposed to consumers and more to capex.

Listed property trusts

Listed property yields, although attractive at present levels, are likely to remain under pressure until global real estate markets and the global economy show signs of stabilisation. A lower dividend yield relative to sovereign bond yield does not give this sector the traditional support it has offered as a safe haven or defensive investment during periods of market turmoil. We are more positive on listed property on a global basis due to the diversification benefits and potential for capital gains these markets offer.

International bonds

Panic, risk aversion, safe haven buying, fears of a deep recession and speculative community positioning are some of the reasons for the strong rallies that we have witnessed over the past months. Based on our outlook for monetary tightening once market confidence and stability is restored, we believe that bond yields will move sharply higher during the latter part of the year. On a long-term basis we see fixed income products offering reasonable value as the demand for steady income that these products provide will be invaluable to retiring baby boomers.

Australian bonds

Australian bond yields have widened quite significantly relative to US Treasuries since the recent credit market turmoil and the onset of global investor risk aversion. However, the relative yield advantage in Australian bonds will attract overseas investor capital once risk appetite returns. We anticipate the spread to trade around 2.0% to 2.5% range in the short-term from its present 2.25% level. We expect the spread to contract sharply when US Treasuries lose their safe haven status. On a nominal basis, Australian 10 year bonds will be attractive at or around the 6.25% level in the short-term and at the 6.50% to 6.75% in the medium-term.

Introducing the Advance 'active currency' strategy

From March 2008, the International Shares Multi-Blend Fund will actively invest in currencies with the aim of enhancing risk-adjusted performance over the long term. The International Shares Multi-Blend Fund is available through Asgard Separately Managed Accounts – Funds and other Asgard accounts.

The value of the \$A, relative to other currencies, moves independently of the international shares into which the underlying manager invests. Actively managing the currency position offers the potential to add value to the fund as exchange rates move.

The specialist managers of the active currency strategy are entitled to a performance fee and, if paid, this will impact upon the investment fees of the International Shares Multi-Blend Fund and correspondingly, the SMA – Funds portfolios, including the 'Defensive' portfolio.

For updated fee information, please speak with your financial adviser.



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