

# Intelligent Investing

## Quarterly Investment Review

### CEO's ADDRESS A Trip Across Australia

**A**s foreshadowed in the last CEO's address titled "Off to a Flying Start" - it was just that. Following the merger of Western Pacific with Snowball Group Limited, it was on the plane and in the car to travel round Australia visiting the Western Pacific offices, from Brisbane, over to Perth, down to Mandurah and Dunsborough, and then across to Adelaide and Port Augusta. In the week before, it was a mere hop, skip and a jump to Melbourne and a visit to the Toorak office.

We said during and after the merger that the "catch-cry" for the business and, more importantly, for our clients was *business as usual*. And that is just what we discovered on our trip. I can safely say that, without exception, we found a team of advisers committed to the principle of "business as usual".

A team comprising myself, Carl Scarcella, our Chief Operating Officer and Maree Alilovic, the Practice Development Manager, dropped in to see your advisers. The main purpose of the trip was to talk to as many advisers as possible. Firstly, to see where we could help with "business as usual" and secondly, to start the process of sharing ideas and ways of constantly improving our service to you, the clients.

#### A New Team With Familiar Faces

We have established a team whose main purpose is to work side by side with your advisers to constantly look at better and smarter ways of doing things. "Intelligent Advising", as well as "Intelligent Investing" might be one way of describing it!

Maree Alilovic and Devi Chhana are key members of the team. Both worked at Western Pacific prior to the merger and have taken up new roles specifically intended to drive programs like this one, and to make your adviser's life easier so that they can spend more time working with you. Many of the suggestions revolve around ways in which we can alleviate advisers from various day-to-

day administrative tasks so that they have more time to concentrate on the task of advising their clients – developing strategies that help their clients achieve their goals as well as working with them to monitor and adjust those strategies as things change. One of the constant battles in any business (and financial planning is no exception) is to administer the business as efficiently as possible; to maximise the time spent on finding the best solutions for clients – first and foremost.

#### Some New Faces

Since the merger, we've also welcomed some new advisers. The Vermont practice in Melbourne has grown its numbers, following the recent purchase of the ODL Group. The new advisers, Danny Lee, James Baxter and Bradley McNay, will be working with Julio Carrieri from the Vermont Office. They will use their combined experience to deliver the best service possible to their clients.

Graeme Lavin and David Eshman, both specialist insurance advisers, have also joined the team. Graeme and David are based in Cleveland, Brisbane and are experts at all aspects of life insurance, total and permanent disablement, trauma and income protection insurance. As pointed out in our Autumn 2006 Quarterly Investment Review, a lot of press has been devoted over the years to the fact that, as a nation, Australians are generally underinsured. Working with your adviser to ensure you have adequate protection for yourself, your family, your income or your business is an important part of the planning process. Your adviser can help with further information and with ensuring that you get the appropriate advice in this all-important area.

I trust you will enjoy the rest of the Investment Review and, as always, thank you for your continued support.

**TONY McDONALD**  
**CEO**

Snowball Group Limited  
(incorporating Western Pacific Financial Group)

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"Every worthwhile accomplishment, big or little, has its stages of drudgery and triumph; a beginning, a struggle and a victory"  
*Ghandi*

# Economic Overview

During the March quarter, ongoing pressure on commodity prices saw gains in metal prices. The oil price also climbed higher over the quarter fuelled by supply concerns surrounding tensions in Iran and a run-down in gasoline inventories in the United States. A sharp downturn in the Chinese market saw most stock markets plunge towards the end of February; however most of the major share markets had recovered by the end of February posting positive returns for the month.

## Australia

The Westpac-Melbourne Institute's consumer sentiment index rose by 3.7% in March to 115.5, the index is now 3.6% above its level of a year ago, suggesting that consumers remain confident despite the three interest rate increases in 2006. Job advertisements rose 3.4% in February, reflecting ongoing strength in the labour market, with the unemployment rate at three-decade lows at 4.6%. Business conditions and confidence are also at above average levels. Whilst car sales were flat in February, over the year sales increased from 5.7% to 7.9%, boosted by easing fuel prices and falls in the costs of imported vehicles.

Building approvals surged 10.6% in February, driven by the volatile apartment sector which rose 31.5%, however, private housing has continued its downward trend, falling 0.3% in February, to be down 6.1% year-on-year. Sales of new homes rose in February in all states except Queensland, which fell 3.4%.

Higher commodity prices provided support for the Australian dollar, which broke through US \$0.80 during the quarter, the highest level since December 1996.

At the beginning of April the Reserve Bank of Australia left the official cash rate unchanged at 6.25%.

## United States

Mixed signals abound in America with housing starts and existing home sales rising in February, but applications for mortgages fell as did permits to build new homes. A survey of home builders fell back a touch in March after several months of gains. March saw the highest number of existing homes sold since last April; new home sales in February were a completely different story, dropping by 3.9%. The median price of a home also dropped, falling by 1.3% compared to last year, the seventh consecutive month of year-on-year price declines. Existing home inventory jumped 6% to 3.748 million homes, almost back to the record levels reached last summer.

Consumer confidence fell four points to 107.2 in March, due to a drop in consumer expectations, which fell 6.9 points to 86.9. The labour differential (the percent that views jobs plentiful minus those that believe jobs are hard to get) rose to 11.4, the largest differential since August 2001.

In the United States the Federal Reserve left the Fed Funds target rate unchanged at 5.25% on 22 March.

## Euro Zone

Germany's unemployment rate fell to the lowest in almost six years at 9.2% in March as growth in exports encouraged companies to hire. Construction orders surged after the mildest winter on record. French unemployment also fell more than expected in February, enough to trim the ILO jobless rate to the lowest level since June 1983. Overall the unemployment rate in the Euro-Zone remains steady at 7.3%.

French housing starts plunged 15.1% in the three months through to February, the steepest drop since January 2001, suggesting the real estate boom is losing steam. After reporting improved trading conditions in the Euro-Zone last year with a surplus of EUR3.2 billion, this was reversed in January to a deficit of EUR7.8 billion.

The European Central Bank raised the benchmark interest rate by 0.25% to 3.75% in early March.

## Japan

Retail sales fell 0.9% in February, to be down 0.2% year-on-year, although overall household spending rose 1.3% in February. The jobless rate continues to hold steady at 4.0%. Commercial land prices in Japan's three biggest cities rose 8.9% in 2006.

The Bank of Japan maintained current interest rates at 0.5% in March, citing the aim of keeping prices stable in the medium to long term in order to achieve sustainable economic growth.

## Emerging Markets

The Reserve Bank of India raised key interest rates a month before its scheduled policy review because of a failure to bring down inflation from a near two year high, increasing its overnight lending rate by 0.25% to a four year high of 7.75%. The People's Bank of China also raised its long term deposit/lending rates by 0.27%.

# Market Overview

## A STUDY OF RISK

Long time clients of Western Pacific may be getting a tad bored with us focusing all the time on risk; however, that won't stop us! This quarter we are going to spend some time exploring why investment risk is an important (in fact, we would say the most important) consideration in investments and also what some potential risks are.

### Why is it so important?

Well, to use a top of mind example – if the 8000 or so “investors” who have lost the best part of \$300 million on the Fincorp collapse had focused on risk more, they would not be in the pickle they are currently in. While we are obviously sorry about the lives that have been impacted dramatically by this collapse it is a fact that Fincorp had been an accident waiting to happen for several years (and there are several other such “accidents” that are continuing to raise funds from the “unsuspecting” public). It is also clear that numerous entities, including the Australian Securities and Investments Commission, and even ourselves, had been warning about products like Fincorp for several years... but to no avail.

So let's try to understand risk:

- We will only focus on two risks for the purpose of this study:
  1. Risk of capital loss.
  2. Risk of variability of returns.
- In a theoretical sense ALL investments carry some element of the first risk, that is, risk of capital loss.
- In a practical sense though, for Australian investors, loans made to the Australian Government (i.e. 90 day bills, three year and ten year bonds) have no risk of capital loss – simply put, the Government can always print the money to repay your loan (this inflation will however destroy the real value of the return you receive – hence you can NEVER get away from the second element of risk).
- Moving away from that “guaranteed” area, what about the risk from other investment classes. Perhaps a table will work best:

Asset class	Risk of capital loss	Risk of variability of returns
<b>Cash</b>	Low. Provided that you invest in high quality cash products (rather than “enhanced” cash products) there is very little risk of either temporary or permanent capital loss.	While each day the cash rate may vary slightly; each day you will also, in basically all circumstances, receive a positive return. Accordingly, you will find very little variability in the returns from cash – returns will only tend to vary over time in line with overnight cash rates from the Reserve Bank of Australia (RBA).
<b>Fixed Interest</b>	Variable. You are providing a loan so the risk of capital loss very much depends on the strength of the borrower. As outlined above, because of their ability to tax and issue currency, loans to the Australian Government (for Australian residents) are basically risk free. Loans to the highest quality foreign governments are similarly low risk, but are likely to have a reasonably high risk of capital loss from movements in foreign currencies vis-à-vis the Australian dollar. Loans to the highest quality Australian corporate borrowers are similarly low risk, but certainly not “no risk”. Moving down further, in terms of quality, consider Qantas? Well certainly it is lower risk than lending to the local video store, but again it is far from no risk – it is a tough business, planes are expensive and, unlike a government to pay you back, they need to produce profits. Such a loan is probably as “risky” as you would go while still calling something an investment. Below this level you begin to take enormous risks, which is fine, but (a) you need to be rewarded for those risks, and (b) you need to have a broad range of such investments so that when one fails (as it invariably will) it is not a dangerously large portion of your portfolio. Fincorp falls squarely into this last category and people failed to implement both points (a) and (b).	One strength of fixed interest investments is that they ordinarily provide a high degree of certainty in relation to the returns that they provide. Generally you will either have a fixed rate of interest being payable (i.e. 7% p.a.), or a variable rate of return, but at a fixed margin over some other identifiable rate of return (i.e. you might get 0.75% p.a. above the RBA overnight cash rate, currently 6.25%, for a total of 7.0% p.a.). In the first scenario you would have a fixed rate of return, and provided that the borrower(in both cases) was strong and able to meet its liabilities there would be NO risk of capital loss and hence variability of returns. In the second type there almost certainly will be variability in returns which can be good or bad. Basically, if interest rates are rising then you would want to have the second type – for instance if the RBA increase its rate from 6.25% to 6.75%, the interest rate you would receive as an investor would increase to 7.5%. Conversely, falling interest rates are something that you want to avoid as a variable rate fixed interest lender.

# Market Overview

Asset class	Risk of capital loss	Risk of variability of returns
Shares	<p>Large. Why is it that returns from shares are higher (generally speaking) than all of the other asset classes? Simply because they are riskier. And the primary reason that shares are riskier than other asset classes is that they are the lowest down in the food chain... What do we mean? Well, let's say that a company sells a product for \$100. From that \$100 comes \$60 for the actual cost of the goods that were sold, \$10 for getting it to market, \$20 profit for the retailer to sell it, leaving \$10 for the producer. From that \$10, the producer firstly pays wages to their employees, then pays tax to the government, then pays interest on those loans outlined above. This leaves, perhaps, \$2 or \$3 for the company on an after tax basis. That is what we mean by the end of the food chain – but this can also be a positive. If a company's goods are in demand and/or the economy is doing well, then you may find that a company can increase its profit margins and that \$2 may become \$4 (i.e. by selling at \$102 rather than \$100). On the other hand, in bad times you can (and often do, which people seem to have forgotten) have companies that lose \$2 or more for every \$100 of sales (i.e. if the "sale" price is \$96 or below). Of course, that can't continue forever and eventually such companies will go out of business losing all of their shareholders' money. Thus, it is possible to lose capital from share investments because your company goes out of business. A much more common way to lose money from shares though is simpler - pay too much for them! And as we can see from above it is very, very easy to do that as the return you get from shares (i.e. the profit of the underlying business) is so variable. So it is simple then, we just stick to those "blue chips" with stable profits? If only it were that easy – but unfortunately there are several tens of thousands of other smart people who have got in before you and, hence, the comfort provided by those "stable" profits is more than offset by the "fancy" price you have to pay for those profits.</p> <p>Lesson: shares are difficult to invest in. At times (like the present) when it seems the least difficult, it is precisely the time when a greater level of caution should be exercised.</p>	<p>Returns from shares are dependent on two factors:</p> <ol style="list-style-type: none"> <li>1. Your purchase price (i.e. the classic price versus value calculation).</li> <li>2. The future performance of the underlying business of which your share represents part ownership.</li> </ol> <p>Firstly, purchase price is complex because; (a) it is difficult to determine what is a "reasonable" price because the future returns of underlying businesses are so difficult to determine (see left column), and (b) we are all human and suffer from human frailties – hubris and greed being the two most dangerous in the context of share investments – which means that we pay too much for shares from time to time because we either believe we know more than we actually do, or we get greedy.</p> <p>What happens when you pay too much for shares at the time that you purchase them? You end up with unacceptably low, medium and long term results. By way of an example, since 2000, Telstra Corporation has produced consistent annual profits of \$3 to \$4 billion, but the share price has halved from \$9 per share to \$4.50 per share.</p> <p>Secondly, the underlying operations of the business that your partial ownership of shares represents are critical. Generally speaking (and all other factors being equal) if the operations of your company are doing well then you are likely to get a return, over time, that roughly approximates that underlying business return, provided you buy it at a reasonable price and intend to hold it indefinitely.</p> <p>Even if you get these two sources "right", the future returns from share investments will be more volatile than from other asset classes – but get these two sources wrong (i.e. pay too much and/or buy a company that does not perform) and your future returns will not just be volatile – they will be negative.</p>
Property	<p>Large. Generally speaking the risk of capital loss in relation to property investments lies somewhere between that of shares and fixed interest. If, for example, you own a property in a good area, leased for a long period to a high quality tenant (who is obliged to meet maintenance costs) and you have purchased that property on a reasonable yield (let's say for the purposes of this discussion 2% to 3% p.a. above the cash rate or say 8.25% to 9.25% p.a. currently) then there is likely little risk of medium term capital loss from that investment. On the other extreme, if you buy a residential property "investment" unit off the plan, in an overbuilt area on a prospective yield of 3% to 4% p.a. under the cash rate (let's say 2.25% to 3.25% p.a.), well ... you are almost certain to lose capital in the medium term. As in most investments, what you buy and the price you pay will determine your likelihood of capital loss from property investments – if you do not know what you're buying (and we mean REALLY know it) and/or do not know what the value of that investment is relative to the price you are paying, then you are more likely than not to sustain medium term capital losses.</p>	<p>As for shares, your return from a property investment will depend on both your purchase price and the future performance of the property. In relation to property – future performance will depend on a vast array of factors including the economy's performance both for the region the property is in and the broader economy, performance of the tenant, future development, etc. In broad terms, returns from property will be more volatile than fixed interest as there is less certainty in relation to the future value of the property (unlike fixed interest where you know what you will receive in the future) but less volatile than shares (primarily as you have, depending on the quality of the tenant, certainty that your rent will be paid).</p> <p>As with all investments (and only slightly less so than for shares) what you buy and the price you pay will determine both your likelihood of achieving positive returns and quite likely the volatility of those returns.</p>
Alternatives	<p>Variable. However, at Western Pacific we consider our investments in alternative strategies (i.e. hedge funds) to be low risk. We use extremely diligent and professional managers, who diversify broadly between strategies and managers. We believe that the risk of capital loss from these strategies is slightly higher than for cash but considerably less than fixed interest.</p>	<p>Similarly to the risk of capital loss, the method by which Western Pacific invests into alternative strategies results in the variability of returns being a touch higher than cash but lower than fixed interest. We believe that there is little risk of excessive volatility in returns from this area.</p>

It is a simple empirical fact that risk is being considerably underpriced by investors at present – eventually risk will be re-priced and investors who are not prepared for that may find themselves in for a rough ride.

# Stock Watch

## RECORD REALTY LIMITED

This quarter's stock watch has identified Record Realty Limited, a security that many of you may hold indirectly through an investment in the Officium Property Fund or even directly in your own portfolio. Record Realty Limited (ASX code: RRT) is an ASX-listed investment vehicle that applies structured finance techniques to achieve optimal returns on property and property related investments. In general, Record Realty, as a company, aims to achieve a minimum 15% p.a. pre tax return on a portfolio of property investments, taking a moderate level of risk.

Basically, Record Realty invests primarily in commercial office buildings with long term leases and high quality tenants. This focus on long term leases and high quality tenants provides the consistency and continuity of income from their portfolio of properties. A prime example of Record Realty's investment philosophy is their investment in the Australian Tax Office building in Queensland, and the Qantas Head Office at Mascot in New South Wales. The properties are both high quality buildings with blue chip tenants (all tenants have a credit rating of above BBB+).

Over the last year, Record Realty has been very busy, locating further quality properties offering attractive income yields. Recently Record Realty has expanded globally with the acquisition of seven commercial office buildings in Germany. The properties are all being leased to Deutsche Telekom (similar in an Australian context to Telstra) for the next 13 years and have an A rated income stream. Proof again of Record Realty's stringent investment process with the purchase of quality buildings with a blue chip tenant, and a long-term lease. An additional positive, these assets were re-valued in October last year, recording a 5.1% increase in the value of the properties. This acquisition increases the Record Realty portfolio to 19 commercial and industrial properties.

Recently Record Realty has also entered into an agreement to acquire the assets of Government Properties Trust, which is listed on the US stock exchange. This gives Record Realty exposure to 22 properties in the US, and as the name would suggest, the tenant of the properties is the US Federal Government.

Whilst current and previous acquisitions show Record Realty's ability to secure very attractive properties, with secure incomes, how do they achieve their aim of 15% p.a. return on their investments? Compared with a traditional listed property trust or syndicate, Record Realty seeks to enhance total returns over the medium to longer term by the use of increased leverage combined with structured finance techniques. Generally, Record Realty borrows up to 80-85% of the valuation of the property at time of purchase. Thus, the leverage assists in enhancing the return from the properties; however, as with all gearing, the risk of the investment is also increased, especially at rates of 80-85%. And this is why Record Realty ensures that all properties meet their strict investment criteria and that the buildings, the tenants and the leases themselves are of a high quality, thereby reducing the overall risk of the investment.

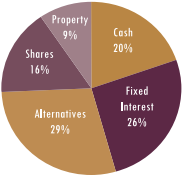
Record Realty provides investors with exposure to quality properties, which are diversified regionally across Australia as well as globally with properties in Germany and the United States. It also provides a secure income yield, and at present Record Realty is trading at an 18% discount to its reported Net Tangible Assets of approximately \$1.06 (share price \$0.87 as at 30 April 2007).

# Managed Fund Watch

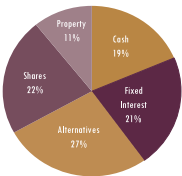
## OFFICIUM DIVERSIFIED FUNDS

Officium Capital released the Officium Diversified Funds in September 2005, basing these Funds on the Western Pacific Recommended Portfolios which have a solid six year track record of absolute returns. The Officium Diversified Funds provide investors with access to a broad range of assets, with a diversified fund for each investor risk profile, from Cautious to Aggressive.

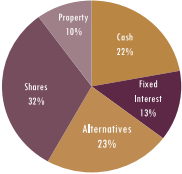
**Officium Cautious Fund**



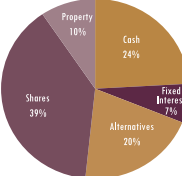
**Officium Conservative Fund**



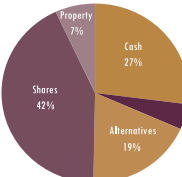
**Officium Balanced Fund**



**Officium Assertive Fund**

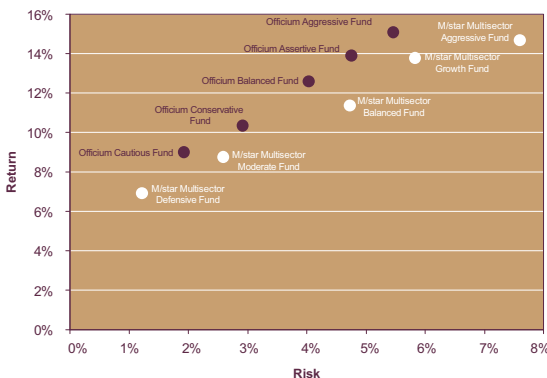


**Officium Aggressive Fund**



The Officium Diversified Funds invest across all asset classes, depending on each Fund's applicable risk profile, i.e. the Officium Cautious Fund has a larger allocation to less risky assets such as fixed interest and cash, whereas the Officium Aggressive Fund has a higher allocation to higher risk assets such as Australian and Global shares. The pie charts on the left show each of the Officium Diversified Funds current asset allocations.

In line with Officium's absolute returns investment philosophy of producing positive returns, each of the Funds' aim to minimise the risk of capital loss over their recommended investment time-frame, and provide reasonable returns relative to the target risk profile of the Fund. The suggested investment time frame for each Fund is related to the risk profile, that is, the more risk (i.e. the Assertive and Aggressive Funds) that is taken requires a longer minimum time-frame for investing of four to five years, while taking less risk (i.e. the Cautious and Conservative Funds) suggests a shorter time-frame for investing of one to two years. The following graph shows how the risk-return ratio for the Funds works:



**Officium Cautious Fund:** Seeks to primarily protect capital and minimise risk over the short term (one year plus) while providing modest returns.

**Officium Conservative Fund:** Seeks some higher returns but remains primarily concerned about protecting capital over the short to medium term (two years plus).

**Officium Balanced Fund:** Seeks to balance the protection of capital with the desire to achieve reasonable returns over the medium term (three years plus).

**Officium Assertive Fund:** Prepared to assume more risk, increasing the possibility of negative returns, in exchange for potentially higher returns over the medium to long term (four years plus).

**Officium Aggressive Fund:** Prepared to assume higher risk, with a higher possibility of negative returns, in exchange for potentially higher returns over the long term (five years plus).

As at the end of February 2007 the Officium Diversified Funds have 16 months of performance history and data. The following table details each of the Funds one year performance return and also identifies the Fund's Sharpe Ratio. The Sharpe Ratio is a measure of the risk-adjusted return of an investment, which means the ratio can be used to show how well the return of a fund compensates you for the risk taken. Generally the greater a fund's Sharpe Ratio the better the fund has performed on a risk adjusted basis. Thus, when comparing two funds, the fund with the higher Sharpe Ratio provides more return for the same amount of risk or alternatively provides the same return at a lower level of risk. So that you can compare like with like, we have included the Sharpe Ratio of the applicable index for the Officium Diversified Funds\*.

Fund	1 Year Return	Positive Months	Sharpe Ratio
Officium Cautious Fund	8.97%	88.89%	1.62
Morningstar Multisector Defensive Fund*	6.89%	81.06%	0.42
Officium Conservative Fund	10.31%	83.33%	1.53
Morningstar Multisector Moderate Fund*	8.73%	73.80%	1.21
Officium Balanced Fund	12.57%	88.89%	1.67
Morningstar Multisector Balanced Fund*	11.35%	67.63%	1.28
Officium Assertive Fund	13.89%	83.33%	1.69
Morningstar Multisector Growth Fund*	13.75%	66.67%	1.50
Officium Aggressive Fund	15.07%	72.22%	1.69
Morningstar Multisector Aggressive Fund*	14.65%	64.22%	1.31

As you can see all of the Officium Diversified Funds have a higher Sharpe Ratio than their comparable index, thus, the Officium Funds have provided much better risk adjusted returns. So, in essence Officium Capital is doing what it said it would do, providing a reasonable return relative to the risk that is taken. And, as you can see by the Positive Months column in the table above, Officium is doing this by firstly protecting investor's capital, ensuring that negative periods are minimised.

\*Source: Morningstar Research Pty Ltd. Officium Capital Limited do not use the Morningstar Index as a benchmark for performance, these statistics are included for informational purposes only. Officium Capital Limited makes no representation that they will achieve or aim to achieve the stated returns.

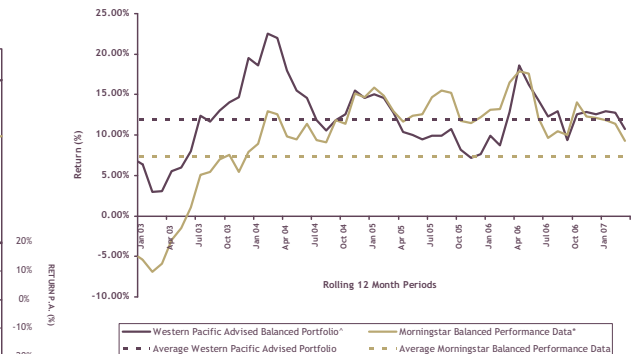
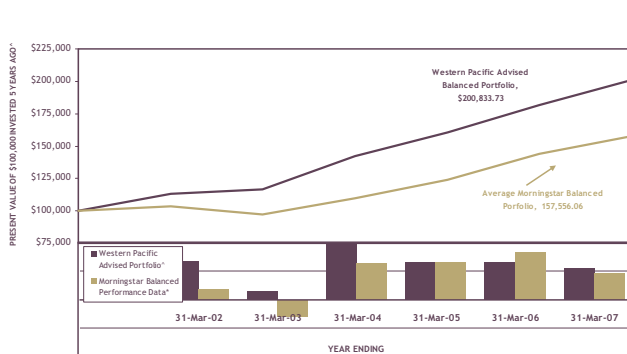
# Western Pacific Recommended Portfolios Performance Returns

As at 31 March 2007

Time Period	Western Pacific Advised Balanced Portfolio ^	Morningstar Balanced Performance Data*	Differential to Western Pacific
April 2001 - March 2002	13.32%	3.50%	9.02%
April 2002- March 2003	3.06%	-5.90%	8.96%
April 2003 - March 2004	22.02%	12.60%	9.42%
April 2004 - March 2005	12.80%	12.90%	-0.10%
April 2005 - March 2006	12.89%	16.48%	-3.59%
April 2006 - March 2007	10.70%	9.25%	1.45%
<b>6 Year Average Compound Return</b>	<b>12.33%</b>	<b>7.87%</b>	<b>4.46%</b>

Time Period	Western Pacific Advised Portfolios ^				
	Cautious	Conservative	Balanced	Assertive	Aggressive
1 April 2003 - 31 March 2004	11.05%	18.76%	22.02%	25.39%	30.05%
1 April 2004 - 31 March 2005	9.59%	11.08%	12.80%	13.78%	15.14%
1 April 2005 - 31 March 2006	10.26%	12.06%	12.89%	13.73%	13.45%
1 April 2006 - 31 March 2007	8.21%	9.19%	10.70%	11.69%	12.73%
<b>4 Year Average Compound Return*</b>	<b>9.77%</b>	<b>12.72%</b>	<b>14.52%</b>	<b>16.03%</b>	<b>17.64%</b>

\* Due to different commencement dates there may be a variance between individual client returns and the returns outlined above.



The 2004, 2005, 2006 & 2007 returns have been calculated by weighting (in accordance with the relevant asset allocation) the actual total returns of the investments which comprise our standard portfolios (as designed by our Chief Investment Officer). From time to time our portfolios are adjusted, and we have time weighted the relevant investments to allow for these adjustments. The 2003, 2002, 2001 & 2000 returns represent the total return for all Western Pacific Financial Group clients, using information provided by Symetry Limited. Returns are calculated net of underlying investment management charges (where applicable), however before tax, administration or adviser fees. No allowance has been made for transaction costs. We have tested the calculated figures against actual client portfolios to confirm the accuracy of the calculations. Past returns are not necessarily, and in fact are unlikely, to be the same as future returns and we would recommend that clients discuss with their adviser the returns Western Pacific reasonably expect in the future. \*Morningstar Australian Multisector Trust Balanced Index. Source: Morningstar. ^ Gross Investment Return Western Pacific Advised Portfolios via our Main Investment Platform. Returns calculated from information provided by Symetry Ltd

# Technical News

## SUPER OPPORTUNITIES HEADING YOUR WAY

*Changes proposed by the government last year aim to simplify Australia's superannuation laws. On the one hand, you'll pay less (or no) tax on your super money when you retire. On the other hand, the after-tax amount you can contribute to super will be subject to restrictions.*

In the 2006 Federal Budget, the government announced it would abolish Reasonable Benefit Limits from 1 July 2007. This is a welcome change as it will mean you won't pay any additional tax on money you hold in super. Also from 1 July, if you're over 60 the money you withdraw from your super will generally be paid to you completely tax-free.

These concessions are partially balanced by the government's proposed changes to the amount you can pay into super for the current and future financial years.

### Before-tax (concessional) contributions

Before-tax contributions (Super Guarantee Contributions plus contributions you make by salary sacrifice) you can make are currently restricted according to your age. If you're under 35, the limit is \$15,260 p.a. If you're between 35 and 49, it's \$42,385 p.a. If you're over 50, it's \$105,113.

This age-based restriction will be abolished from 1 July 2007 and replaced with a new contribution limit of \$50,000 p.a. If you're under 50, the good news is this represents an increase in the amount you can contribute. If you're already 50 (or turn 50 at any time between 1 July 2007 and 30 June 2012), a transitional limit of \$100,000 will apply under the new proposals, so you won't be overly disadvantaged by the change.

**Example** - Sally turns 50 on 17 May 2010. She will be able to make before-tax contributions of up to \$100,000 in the 2009/10, 2010/11 and 2011/12 years.

### After-tax (non-concessional) contributions

Until the current financial year, you could contribute an unlimited amount of your own after-tax money at anytime (up to a certain age) to your super. For the period 10 May 2006 to 30 June 2007, you're limited to \$1 million in after-tax contributions and from 1 July 2007 an annual cap applies.

### Contribution limits/tax rates for the 2007/08 financial year

The table shows the limits and tax rate for your before and after-tax contributions under the new proposals. (As you've already paid tax on your after-tax contributions, no additional tax is payable.)

Age	Annual cap on before tax contributions	Annual cap on after tax contributions	Tax on excess contributions
Up to 50	\$50,000 taxed at 15%	\$150,000	Taxed at top marginal tax rate, plus Medicare Levy
50+ (or turn 50 during 2007/2008 financial year)	\$100,000 taxed at 15%	\$150,000	Taxed at top marginal tax rate, plus Medicare Levy

### Three-year averaging rules

Under the new proposals, from 1 July if you're under 65 and want to make a lump-sum contribution, you'll be able to bring forward two years of contributions.

The three-year averaging rule will automatically apply once you've exceeded the annual cap for a particular year.

To make the three years' worth of contributions in the year you turn 65, you'll have to meet the eligibility requirements.

Some exemptions apply for small business owners and for people receiving settlements for an injury resulting in permanent disablement.

### Other proposed changes

- The limit on the tax deduction for contributions made by employers has been removed, which means if you're working you'll be able to make salary-sacrifice contributions until the year you turn 75.
- Eligible Termination Payments will become known as Employer Termination Payments (ETPs) with an annual cap of \$140,000 that will be subject to concessional tax treatment. You generally won't be able to rollover these payments into super.
- If you're self-employed, the good news is you'll be entitled to the government super co-contribution if 10% or more of your total income is from carrying on a business.

### Million-dollar countdown

Contributions from your after-tax income aren't taxed when your super fund receives them. They're also tax-free when you take them out of your fund. So the government's one-off concession on after-tax contributions for the current financial year is an offer you can't afford to miss!

Until 30 June this year, if you're eligible to contribute to super, you can make after-tax contributions of up to \$1million.

Even if you don't have a spare \$1million, if you can access a lump sum of any amount (for example by taking out a loan or selling assets), you could benefit from paying it into super rather than investing elsewhere, where you could potentially end up worse off because the investment income is taxed at a higher rate.

### Example

Frank's after-tax contributions at 31 December 2007 are \$155,000. Frank can continue to make after-tax contributions in the 2007/08 year and the next two years provided they don't exceed \$450,000 for the three-year period. He can't elect to have the annual cap apply in the current year and pay penalty tax on the \$5,000 excess contribution.

Talk to your financial adviser about the opportunities for this year and strategies to boost your super for your retirement years.

Source: Asgard

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