

Planning Matters

Winter 2010

Welcome...to the Winter Edition 2010 of Planning Matters. Be aware but not alarmed...

It has been a volatile ride so far in 2010. The last month has brought about what can now be formally called a 'correction' driven largely by the Greece/Euro debt crisis.

Economic Outlook

The February reporting season's analysis and positive economic data resulted in analysts upgrading profit expectation for current and future years. Based on historic trends, that effectively brought the market back into fair value territory. However the local and global markets were more focussed on the potential contagion of the Greek debt crisis with main economists concerned it could potentially de-rail the global growth story, pushing the market lower and further into value territory.

Banking Results

The banks are important bellwethers of the economy, providing insight into the economic health of the nation. In the latest round of profit results whilst the commentary has generally been cautiously optimistic, the detailed numbers indicate margins have been under some pressure and growth is slowing.

Henry Tax Review

The release of the Henry Tax Review and the potentially industry damaging resources super profits tax proposal added to the downbeat mood of the market triggering another sell-off, particularly in the cyclical sectors.

So what does this mean for you?

Considering the broader picture, the medium term fundamentals for investing look compelling. The Reserve Bank of Australia (RBA) commentary accompanying the latest rate rise supports this view.

It means that you're being presented with another attractive entry point in the market. Whilst we are respectful of near term headwinds, we maintain a bullish outlook for year end.

Within the recent correction, defensive sectors (healthcare, telecoms, utilities, consumer staples) have outperformed the market. Not surprisingly then, cyclical sectors (materials, industrials, financials) have underperformed.

It would appear to us that resource company share prices reflect much of the negativity surrounding the tax proposal.

Interest Rates

Policy rates in the G-3 appear firmly on hold, however momentum is shifting towards policy normalisation in a range of emerging markets and commodity-producing nations. Just five central banks hiked rates since the recovery started (Australia, Norway, India, Malaysia and Israel). Over the next few months the number will rise.

The Board of the RBA lifted rates again in May as expected. The Boards commentary made some interesting claims in three key areas:

1. Global growth now could be 'a little above trend';
2. The rise in Australian's terms of trade is expected to be larger than previously thought; and
3. Inflation will be higher than expected - upper half of RBA's 2-3% target over the coming year.

With the policy stance now closer to a normal setting we lean towards the RBA delaying the next hike until July.

** The above extract has been sourced from the Ord Minnett Research Strategy Bulletin June quarter 2010 and May Monthly 2010. Please refer to their disclaimer at the end of this document.

Europe clouds the recovery

In recent weeks, a clear decrease in the global risk appetite has weighed heavily on equity markets. Global concerns have also contributed to depreciation of the Australian dollar. Four key issues appear to be driving this:

- Trend to a three spread global economy,
- European sovereign debt issues,
- Banking/financial re-regulation, and
- Localised issues

These concerns and reduction in risk appetite are unlikely to be unwound in the very near-term, so volatility could be expected to remain for a while. However, the continued recovery in some key economies including the US and Australia should help see markets stabilise over the medium term and eventually return to their recovery trend from the early 2009 lows.

The above extract has been sourced from the CFS Market Commentary. Please refer to their disclaimer at the end of this document.

Manager in the Spotlight

Perpetual Wholesale Concentrated Equity Fund

Perpetual believes there are opportunities to add value by selectively investing in undervalued, quality companies identified through proprietary research and by taking advantage of short-term market inefficiencies. The manager applies a value orientated approach and believes investments in quality companies lowers the downside risk. Monitoring and accountability is seen as critical in order to correctly identify where value is being added or lost during the investment process. The fund aims to provide long-term capital growth and income through investment in quality industrial and resource shares and other securities.

Investment Approach

Perpetual researches companies of all sizes using consistent share selection criteria. Perpetual's priority is to select companies that represent the best investment quality and are appropriately priced. In determining investment quality, investments are carefully selected on the basis of four key investment criteria: conservative debt levels, sound management, quality business and in the case of industrial shares, recurring earnings.

The fund's investment portfolio will typically consist of between 20 and 45 stocks. Derivatives may be used to: adjust currency exposure, hedge selected shares/securities, gain exposure to relevant indices and the market, create a short exposure to a stock for underlying funds authorised to take net negative positions.

Investment guidelines

The Fund's investment universe allows it to invest, directly or indirectly, in stocks listed or to be listed on share market exchanges outside Australia. Exposure to stocks listed outside Australia is limited to 20% and is generally hedged to the Australian dollar to the extent reasonably practicable.

Performance (%) as at 30/4/2010

Total return	3 mths	1 yr	3 yrs	5 yrs	Inception#
Fund (net fees)	7.4	34.7	1.0	10.8	13.0
Index*	6.5	32.5	-4.0	8.4	8.8
Relative Performance (post-fee)	0.9	2.2	5.0	2.4	4.2

* Blended Ordinaries 300 Accumulation index

#Fund inception 6 August 1999

Distributions

June and December

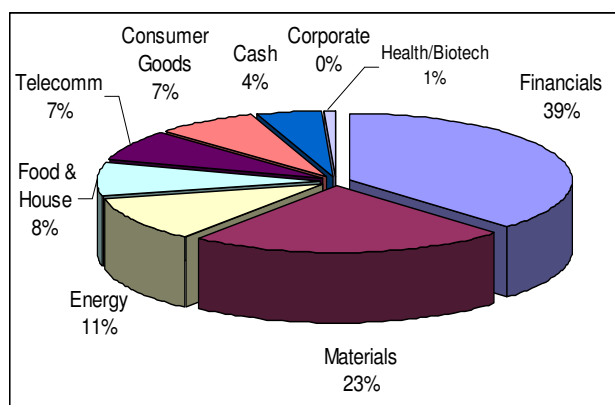
Management costs as at 30 June 2009

1.10%

Style Quality

Value

Asset Allocation as at 30/04/2010



Top nine Holdings as at 30/04/2010 verses competitors

Perpetual	A	B	C	D
CBA	BHP	CBA	BHP	BHP
BHP	CBA	BHP	WBC	ANZ
WBC	NAB	ANZ	NAB	CBA
Coal & Allied	WBC	RIO	CBA	NAB
Orica	ANZ	WES	ANZ	RIO
Fosters	RIO	WBC	TLS	WBC
Rio	TLS	Seek	Amcor	WES
Computershare	WES	NAB	Macquarie	Macquarie
QBE	QBE	WOW	RIO	Asciano

Index performance

The table represents returns across the major world indices for the past 12 months to 31 May 2010.

Index	Day (%)	Week (%)	MTD (%)	YTD (%)
S&P/ASX 200	-0.62	0.78	-8.91 [^]	-9.05
ASX 200 Property	-0.10	3.75	-7.98 [^]	-3.89
S&P 500 Comp	-1.24	0.16	-8.20	-2.30
NASDAQ	-0.91	1.26	-8.29	-0.53
Nikkei 225	0.06	0.11	-12.82 [^]	-7.37
Euro Stoxx 50	-0.15	2.03	-7.33	-11.96
MSCI Wld \$US	-0.50	0.48	-9.31	-6.37
EPRA /NAREIT GI	-0.11	2.85	-6.80 [^]	0.74
Oil (WTI) \$US bl	-0.78	8.72	-14.14	-6.79
Commodities US\$	-0.82	3.05	-13.19	-11.58
AUD/USD	0.17	2.36	-0.17	-5.61

~ Above Index Performance figures sourced from Advance daily report.

[^] MTD to 27 May 2010

Changes to Legislation

Update: Final determination on trauma insurance through a self managed superannuation fund (SMSF) and satisfaction of the sole purpose test

The Australian Taxation Office (ATO) has released SMSFD 2010/1 which considers whether a trustee of a SMSF can purchase a trauma insurance policy and still satisfy the sole purpose test in section 62 of the *Superannuation Industry (Supervision) Act 1993 (SIS)*.

As per the draft ruling, the ATO's view is that a trustee can still satisfy the sole purpose test provided any benefits payable under the policy:

- Are required to be paid to a trustee of the SMSF and not to some other beneficiary
- Are benefits that become part of the SMSF assets at least until such time as the relevant member satisfies a condition of release, and
- The acquisition of the policy is not made to secure other benefits for another person.

In determining whether to offer trauma insurance, the ATO's view is trustees should consider member obligations generally and factors such as proportion of contributions applied to purchase insurance cover. An unreasonable diversion of contributions to premiums for the cover would be difficult to reconcile with the sole purpose test.

Final ruling on SMSFs using an Ensuring Power of Attorney (EPOA)

Following from our Spring edition, the ATO has issued SMSFR 2010/2 which confirmed that an EPOA that provides scope for a person to act as a trustee/director of a corporate trustee of a SMSF is not sufficient to empower that person to act as a trustee. In order to meet the SIS definition of a SMSF, the person who holds the EPOA must generally be appointed as trustee in place of the relevant member trustee and the member must be removed.

The ruling included information on new ATO's views for alternative directors of corporate trustees and not requiring one-for-one substitution for multiple EPOA holders.

Taxpayer alert on circumventing excess contributions tax

The ATO issued Taxpayer alert 2010/2. The alert outlines the ATO's concerns about arrangements where a clause/s are inserted in to a SMSF trust deed which are intended to prevent the trustee from accepting excess contributions - via a separate trust from the SMSF (even though the contributions are intermingled with other SMSF's assets) and the trustee is obliged to repay the excess amount (along with any earnings) to the relevant member.

The alert outlines a number of tax and SIS related

concerns about these arrangements and confirms that the ATO considers them to be ineffective.

** Extracts have been sourced from the Macquarie MASTech Technical Updates April 2010 and May 2010.

Superannuation

ATO Interpretative decisions

ATO ID 2010/104: **Excess Contributions Tax**. This deals with a fund trustee who returned an excess non-concessional contribution (NCC) based on restitution of a "mistake". The member claimed to have made a mistake in making the contribution as he was unaware the contribution counted towards the relevant NCC cap. The ATO still regarded the returned amount as a contribution and counted it towards the relevant NCC cap as it considered that:

- The member had an intention to make the contribution;
- The fund was the intended recipient of the contribution; and
- The member was not mistaken in the sense that he thought he was required to make the contribution.

** Extracts have been sourced from the Macquarie MASTech Technical Update May 2010.

☎ If you would like any information, please contact Suzanne Luck at McLean Delmo Self Managed Superannuation Fund Department on 9018 4720.

Risk Insurance

When was the last time you reviewed your insurance?

McLean Delmo Financial Services has an in-house Risk specialist who can help review your current insurance policies. We can consider whether any policies are still appropriate; and if there are any better options available.

☎ If you would like to find out more, please contact Steve Beetham at McLean Delmo Financial Services on 9018 4711.

Lending and Finance

McLean Delmo has its own in house Lending and Finance division. The division has access to a large number of financiers and is not aligned to any particular lending institution.

We build long term relationship with our clients and pride ourselves on being truly invested in their financial future.

☎ For any assistance, please contact Daniel Zadnik or Jarrod Hodges at McLean Delmo Finance and Lending on 9018 4665.

Henry, Cooper and Swan.

The Henry Tax Review, the Cooper Superannuation Review and the Government budgets have all been hitting the headlines over recent months. Below is a brief summary of some of the main proposals announced.

A new **Government superannuation contribution** of up to \$500 per year (a 15% matching rate to the concessional contributions (CC)) for those making CC from 1 July 2012 who earn adjusted taxable income of up to \$37,000.

A **concessional contributions cap of \$50,000** for individuals aged 50 and over with total superannuation balances below \$500,000 from 1 July 2012.

An **increase in the superannuation guarantee (SG)** from 9% to 12% gradually from 1 July 2013 to 1 July 2019; along with an increase in the SG age limit from age 70 to 75 from 1 July 2013

Permanent **reduction to the superannuation co-contribution** matching rate at 100%; with a freeze on indexation for two years.

Adjust the benchmark **interest rate that applies to capital protected borrowings** to the RBA indicator rate for standard variable housing loans **PLUS 100 basis points**; applying to borrowings entered into from 13 May 2008.

50% tax **discount for interest income** for individuals for up to \$1,000 of interest earned (directly or indirectly) from 1 July 2011.

Reducing company tax rates to 28% for eligible small business companies from 2012/13; a year earlier than the general reduction in company tax rates (proposed 29% from 2013/14 and then 28% from 2014/15 income years)

Increasing the small business **threshold for a low value asset** which can be deducted immediately to \$5,000 from 2012/13

Enabling small business to allocate all other depreciable assets (except buildings) to a **single depreciation pool**, which can be written off at a rate of 30%, removing the need to monitor two different depreciation pools.

Whilst the Henry and Cooper Reviews have provided numerous recommendations and changes, the governments take up of these are limited. Whilst an election is imminent, this is not likely to change. Post election there maybe further announcements.

If you would like any further information, or would like to discuss your portfolio with our Financial Planners, please contact our office on (03) 9018 4716.

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