

Planning Matters

Spring 2011

Welcome...to the Spring Edition 2011 of Planning Matters. "The darkest hour is just before the dawn" is a well used phrase that comes to mind during these turbulent investment periods. Market conditions are highlighting the uncertainties around the mining tax, carbon tax, the euro debt crisis, US debt levels and many other issues. So far in 2011 investors have dealt with cyclones, floods, a soaring Aussie dollar and an uncertain economic environment. Not surprisingly, consumer sentiment has edged lower.

Economic Outlook

Amidst the hurly-burly of markets, the International Monetary Fund released a report to little fanfare, giving the Australian economy a rare tick of approval among developed economies. This affirms our view that Australia is well placed to see through the slower US and European growth, and efforts to reduce their debt burdens.

The parallel downward moves in the local market and the currency suggest that during the most volatile moments, offshore investors have been withdrawing money from the Australian market. Given the steady move higher in the Australian dollar over most of the year, it appears to have been an easy way for these investors to realise profits.

There are other positive factors that the market needs to recognise. The weak US\$ has ignited a recovery in US export markets, Asia continues to grow at a solid clip, with China in particular, managing its high growth rates well, and commodity prices remain buoyant despite the global growth 'speed bumps'. In addition, second quarter earnings results out of the US surprised on the upside suggesting that corporate US is on the mend, an important factor in the global economic recovery process.

In almost every cyclical recovery this uncertain period has proven to be the ideal time for investors to accumulate quality stocks with the aim of enhancing long-term returns. There is value in the market at present and, as history suggests, negative issues are resolved and the market will ultimately focus once again on fundamentals.

Patience and investing discipline is the key. Now more than ever it is important to stay in contact with your adviser for sound and timely financial advice.

Investment Strategy – Opportunity through adversity

Sentiment counts for a lot in investment markets, and the combination of soft economic data and heightened risk aversion has unsettled investors.

A number of investors, still wary from the previous crisis, appear unprepared to piece together a complex puzzle of issues, overlooking important fundamentals. This helps to explain why we've seen such a deep rout in the local share market.

When markets plunge like this, a constructive argument for shares is easily dismissed as "blind to the facts" or "too simplistic and optimistic." Investors are constantly reminded of headwinds faced by markets, so straying from that view leaves one insecure. So it's worth considering a number of points that offer some balance.

- A home ground advantage – Asia is the one region of the world in which there is a clear-cut pick up in final demand; a positive point for Australia.

- Soft US growth does not equal recession – The expectation is for another year of subdued US economic growth and the unemployment rate around 9%. On a technical basis, the yield on a US 30-year bond is well above a 10-year bond. Not since the 1950s has the US entered a recession when this has been the case.

- Australians de-leveraged

- All sovereigns are not created equal: The Commonwealth Governments fiscal position is the envy of most developed economies around the world and offers scope to apply major fiscal stimulus as required.

- RBA has wriggle room – In a similar vein, Australia's central bank has a lot of room to move with its interest rate policy.

- Currency pressures ease – The Australian dollar has also quickly sold off against the US dollar.

The market is now showing compelling value – a forecast dividend yield of 5.3% (72% franked) now sits well above the 10-year bond yield of 4.3% (unfranked). The market price/earnings (P/E) ratio, on a prospective basis, is less than 11 times versus a long-term average P/E ratio of 14.5 times. This means that profit expectations could fall by 25% and the market would still be trading at its long-term average.

We see this as an opportunity to pick up core stocks with outstanding long-term growth profiles at attractive prices

*** The above extract has been sourced from the Ord Minnett Research Strategy Bulletin September quarter 2011 and August Monthly 2011. Please refer to their disclaimer at the end of this document.*

Manager in the Spotlight

Tyndall Australian Equity Fund

To selectively invest in companies listed on the Australian Stock Exchange (ASX), with the target of outperforming the S&P/ASX 200 Accumulation Index by 2% p.a. over rolling five-year periods.

Investor Profile

This fund is best suited to investors who wish to benefit from the long-term capital gains available from share investments and who are comfortable with fluctuations in capital value in the short to medium term. Accordingly, the fund has a long term recommended investment horizon of 5 to 7 years.

Fund characteristics

- High conviction portfolio
- Portfolio invests in 20-35 stocks
- Stock selection is based on a ranking of expected return (i.e. Internal Rate of Return) over a three-year period
- Typically has a lower P/E than the market
- Traditionally has a mid-large cap bias

Manager Analysis

The manager employs a value investment philosophy and believes that building portfolios comprised of undervalued stocks in a disciplined manner will result in superior returns over time. The manager is prepared to back high conviction ideas in a relatively concentrated portfolio. The manager believes that understanding and monitoring the risk/return tradeoffs at both the stock and portfolio level is critical in producing sustained outperformance. The aim is to take advantage of a number of market inefficiencies which are due to investors' short-term horizons, psychological biases and lack of fundamental analysis of companies and secular trends.

Performance (%) as at 31/07/2011

Total return	3 mths	1 yr	3 yrs	5 yrs#
Fund (net fees)	-6.89	2.17	1.52	2.74
Index*	-7.56	2.70	0.52	1.91

Relative Performance (post-fee)	0.67	-0.53	1.00	0.83
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* S&P/ASX 200 Accumulation Index

#Fund inception 27 March 1995

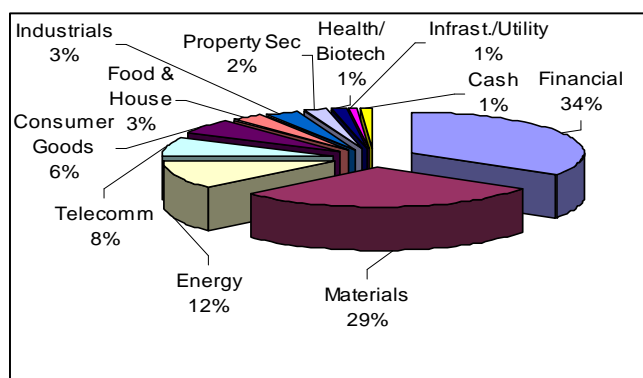
Distributions

June and December

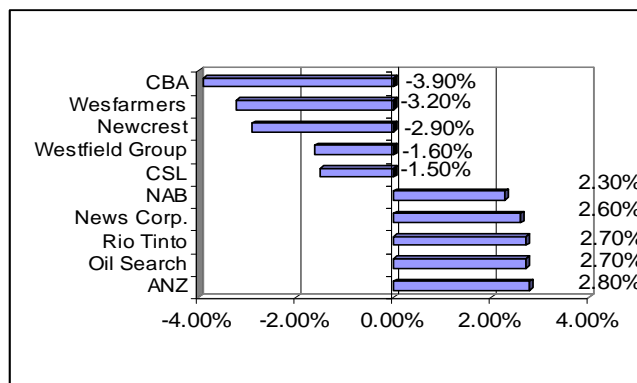
Management costs as at 30 June 2011

0.8%

Asset Allocation as at 31/07/2011



Top 5 Over/Underweight Positions



Index performance

The table represents returns across the major world indices for the past 12 months to 31 August 2011.

Index	Day (%)	Week (%)	MTD (%)	YTD (%)
S&P/ASX 200	0.64	3.09	-3.51	-9.46
ASX 200 Property	0.79	7.05	0.85	-4.73
S&P 500 Comp	0.49	4.53	-6.14	-3.08
NASDAQ	0.13	3.65	-6.54	-2.77
Nikkei 225	0.01	2.83	-8.94	-12.45
Euro Stoxx 50	2.81	2.83	-16.15	-17.57
MSCI Wld \$US	1.27	3.62	-8.32	-3.94
EPRA /NAREIT GI	1.34	4.98	-7.01	0.52
Oil (WTI) \$US bl	-0.10	4.51	-7.11	-2.81
Commodities US\$	0.32	3.70	-2.16	3.27
AUD/USD	0.21	2.14	-2.41	5.02

~ Above Index Performance figures sourced from Advance daily report.

^ MTD to 31 August 2011

Changes to Legislation

Interest Income discussion Paper

Assistant Treasurer Bill Shorten released a discussion paper outlining the Government's proposed approach to introducing a 50% tax discount for interest income, as announced in May 2010 and proposed to commence from 1 July 2012.

Discount will be the lesser of:

50% x (all eligible interest income – all related income producing expenses), and

\$250 in 2012/13 or \$500 from 1 July 2013

The discount will be available for interest income received both directly and indirectly (e.g. via trusts and partnerships) by individual taxpayers. The discount will apply to interest received from deposits held with any bank, building society or credit union, as well as interest on bonds, debentures and annuity products.

The purpose of the discount is to reduce the tax disadvantage that interest income may have relative to other forms of savings income such as capital gains.

The discount is proposed to apply to net interest income received by individuals (i.e. eligible interest income less allowable expenses).

Risk Insurance

Total and Permanent Disability Insurance

The Government has released draft regulations to streamline the process for claiming tax deductions for the cost of total and permanent disability (TPD) insurance provided through superannuation.

Specifically, the amendments provide for the percentage of certain TPD insurance premiums (or the cost of self-insurance) that is deductible to superannuation funds to be specified in regulations.

The draft regulations would amend Income Tax Assessment Regulations 1997. Superannuation funds which hold the relevant insurance policies would have the option of claiming deductions in accordance with this regulation.

Draft proportions

Note: These draft regulations above differ slightly to the proportions proposed in the Treasury Consultation Paper released in June 2011.

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

Insurance Policy	Specified Proportion
TPD any occupation	100 %
TPD any occupation with one or more of the following inclusions: <ul style="list-style-type: none"> activities of daily living cognitive loss loss of limb 	100 %
TPD own occupation	67 %
TPD own occupation with one or more of the following inclusions: <ul style="list-style-type: none"> activities of daily living cognitive loss loss of limb 	67 %
TPD own occupation bundled with death (life) cover	80 %
TPD own occupation bundled with death (life) cover with one or more of the following inclusions: <ul style="list-style-type: none"> activities of daily living cognitive loss loss of limb 	80 %

Superannuation

ATO Interpretative decisions

On 13 July, the ATO issued Draft Taxation Ruling TR 2011/D3 on when a superannuation income stream commences and when it ceases, and consequently when a superannuation income stream is payable. These concepts are relevant to determining the taxation consequences for both the superannuation fund and the member in relation to superannuation income stream benefits paid.

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

** Extracts have been sourced from the Macquarie MASTech Technical Updates July and August 2011.

Carbon Pricing Scheme

Forecast Partly Cloudy.

The Australian Government recently unveiled the details of its proposed carbon pricing scheme, named the "Clean Energy Future" package.

Under the carbon price, roughly 500 of the largest polluters in Australia will need to buy and surrender to the government a permit for every tonne of carbon pollution they produce. The carbon price will be fixed in the first three years, then move to an emissions trading scheme. In the fixed stage, starting 1 July 2012, the carbon price will start at \$23 a tonne, rising at 2.5% a year in real terms. From 1 July 2015, the carbon price will be market set.

Government targets year-end for legislation

The Clean Energy Plan comprises multiple Bills and the Government released the draft Bills earlier than expected, underscoring its aim to push carbon legislation through by the end of this year. With such major economic reform across multiple industry sectors, the government has set a major task to deliver an operational carbon pricing scheme within the next 12 months. Although in the pipeline for some time, we caution that the scale of coordinating and executing this carbon scheme will not be without hiccups.

Sector and stock implications

There were no major surprises in the proposed carbon pricing package. Emissions-intensive and trade-exposed industries will be compensated at the same level as the scheme proposed under former Prime Minister Rudd, with steel manufacturers receiving additional assistance to upgrade to lower emissions technology.

Brown coal-fired electricity generators will also be compensated in a similar manner to the previous scheme, albeit at a slightly lower headline level (\$5.5bn vs. \$7.3bn).

Coal producers with gassy coal mines are to receive slightly less compensation than under the previous scheme at the headline level (\$1.3bn vs. \$1.5bn).

The overall package should give businesses greater certainty as the fixed price period will run for three years. Furthermore, the price caps and floors during the floating price period ensure range bound carbon pricing. This is in contrast with the scheme in Europe which experienced wild price volatility during its earlier years.

For the first three years of the proposed scheme when the carbon price is fixed, we estimate that earnings per share for the 60 leading companies affected by the scheme will fall by an average 1.1% each year.

The 60 companies we analysed were drawn from the sectors most likely to be impacted by the proposal, namely

steel, oil and gas, resources, airlines, transport, building materials, chemicals, retail, real estate, developers and contractors.

The impacts will be well dispersed around this average. We think that these 60 companies will be able to pass an average 45% of carbon costs onto their customers.

Among listed companies, energy retailers such as AGL Energy and Origin Energy should see profits increase, while the airlines Virgin Blue and Qantas see the largest reduction in profitability.

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