

## What is our *investment philosophy*?

The objective of our investment advice is to help you reliably generate the long-term net return you require in order to achieve your lifestyle goals, whilst ensuring that investment risk, investment tax and investment fees are all minimised on an ongoing basis.

To help us achieve this objective, we employ an investment philosophy which incorporates the following five components:

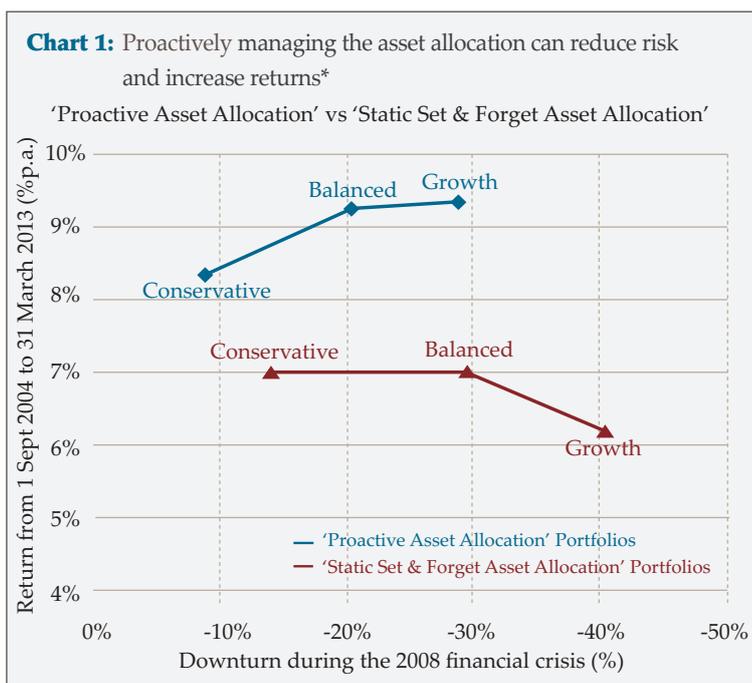
### 1 The risks to an investment portfolio need to be actively monitored and managed

**Risks change over time... that's why a 'set & forget' strategy can unnecessarily expose a portfolio to additional risks**

All investments have some sort of risk associated with them - that is, they all expose you to the chance you could lose money (either notionally or permanently). The more common types of investment risk include: complete loss of capital from investment failure; long term underperformance; volatility; credit risk; inflation risk; liquidity risk; legislative risk; and currency risk. The extent of the threat from each of these risks changes over time as economic, political and investment conditions change.

To help you minimise threats to your investments we actively monitor and manage the risks applying to your portfolio. Some of the strategies we use to do that include making sure your portfolio:

- ▶ Matches your tolerance to risk with the return you require to achieve your long term goals. It is important that your portfolio carries no more risk than you can comfortably accept.
- ▶ Is managed using our valuation driven 'Tipping Point' methodology which better manages your entry into and exit from asset classes and investment markets so you are more likely to 'buy asset classes at lower prices, and sell at higher prices'. (See Chart 1.)
- ▶ Doesn't buy expensive assets, regardless of past performance or apparently rosy prospects.



\*Source: Farrelly's Research and Management Pty Ltd.

Notes:

1. Returns assume that the 'Proactive Asset Allocation' portfolios use the forecast returns from the Tipping Point Methodology (see excerpt pg 3) to determine asset allocation with quarterly rebalancing in line with Farrelly's allocation process. 'Static Set and Forget Asset Allocation' portfolios rebalance back to neutral allocations in line with standard industry practice. 'Static Set and Forget Asset Allocation' portfolio returns are consistent with those achieved by diversified funds pre fees over this period.
2. The period chosen coincides with the period for which Farrelly's Proactive Asset Allocation Handbook has been published.
3. Neutral portfolios and return assumptions as per table below
4. Both returns are pre fees and taxes.
5. Past performance is not a reliable indicator of future performance.

Asset class	Conservative	Balanced	Growth	Source
Australian equities	15%	30%	40%	Aust All Ordinaries Index
International equities	10%	25%	35%	MSCI World (ex Aust)
Property Securities	5%	8%	15%	ASX Property Trusts
Fixed interest	55%	35%	7%	UBS Aust Comp Bond Index
Cash	15%	2%	3%	RBA cash rate

- ▶ Has its downside risk monitored regularly so that we can recommend modifications to reduce an exposure to an investment or asset class if necessary.
- ▶ Is not over-exposed to any investment or investment class.
- ▶ Can be moved to a zero weighting – if necessary – for an investment or asset class that is very over-priced and in danger of suffering a severe price fall.
- ▶ Is properly diversified at all levels as appropriate for you so you are not dependent on the performance of just one or two securities, asset classes, fund managers, or countries. Diversification, when done well, gives you a more predictable return, and reduces your exposure to under-performing investments. (See Charts 2 & 3.)
- ▶ Contains only high quality investments and asset classes which have been thoroughly researched by our associated teams of investment experts.
- ▶ Avoids those fixed interest investments which have high levels of credit risk – even if they are issued by otherwise good entities. These investments have a much higher probability of failure when credit markets are under severe pressure.
- ▶ Is regularly reviewed to ensure that it can continue to help you achieve your long term goals.

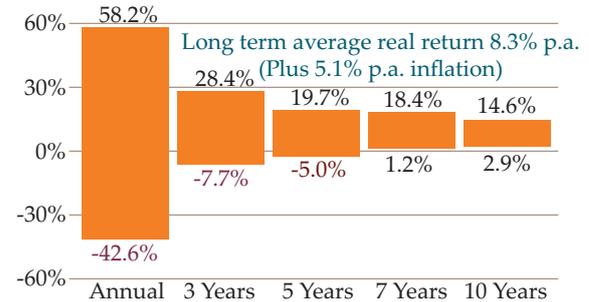
## 2 Buying quality assets at reasonable prices is the best way to achieve competitive long term returns

### Fads, exotic investments, and assets bought without regard for valuation are more likely to produce disappointment

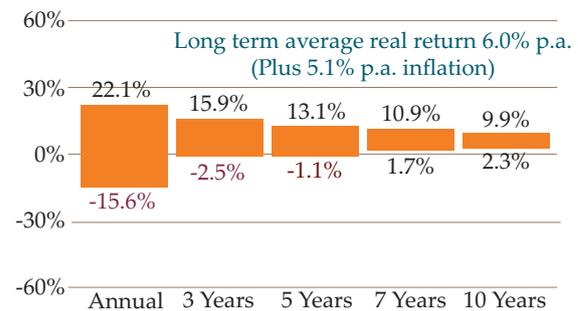
We recognise that exotic investments and strategies which generate – or promise to generate – much higher returns than other investments are usually taking much higher risks and are therefore more prone to failure. They are therefore to be avoided in most cases. At Australian Unity, we believe it's much better to use straightforward, high quality investments, bought at reasonable prices or better, to generate reliable and fairly predictable investment returns. We target returns which are competitive with those of their peers, and which will prudently help you achieve your long term lifestyle goals.

## Diversification can give you a more predictable return<sup>^</sup>

**Chart 2:** Range of Returns (after inflation) for different time frames – Australian Shares



**Chart 3:** Range of Returns (after inflation) for different time frames – 50/50 Diversified Portfolio

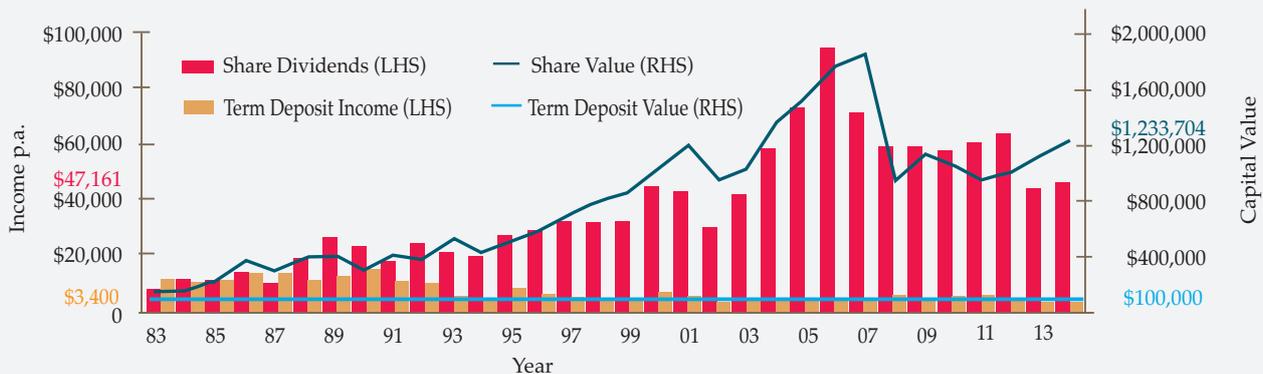


<sup>^</sup>Source: Australian Unity Personal Financial Services. These figures are based on returns for 1975 to 2015 for RBA Bank Bills (15%), RBA Fixed Interest Index (35%), ASX Listed Property Trust Accumulation Index (10%), ASX All Ordinaries Accumulation Index (25%) and MSCI Accumulation Index (15%). Portfolio rebalanced at end of month. Inflation average 5.1%p.a. Past performance is not a reliable indicator of future performance.

Some of the strategies we employ to achieve that outcome include:

- ▶ Working with our specialist researchers to identify the highest quality fund managers with a strong likelihood of prudently out-performing their peers over the long term – and then using that information to shape your portfolio.
- ▶ Acquiring up-to-the-minute research from some of Australia's top analysts on sharemarkets and individual shares to assist us in designing a high quality long-term direct share portfolio (for those clients direct shares are appropriate for).

**Chart 4:** Shares Generate a Growing Income\* (\$100,000 invested from 1 Jan 1983 – 1 Jan 2015. Income not re-invested.)



\* Assumptions and sources: Assumes \$100,000 was invested in the relevant index at 1 January 1983 and income was not re-invested. Shares: These figures are derived from the All Industrials price and accumulation indices to 31/12/2001, and then the S&P/ASX XNJ and XNJAI price and accumulation indices. On an annual basis the percentage increase in the accumulation index less the increase in the price index reflects the dividend generated. Franking credits have been ignored. Term Deposits: 1 year Bank Fixed Deposits – Reserve Bank Australia. Term Deposit is rolled over every year. Past performance is not an indicator of future performance.

- ▶ Preferring managed funds which have a low turn-over of investments and more predictable returns.
- ▶ Avoiding exposure to those investments which are complex and have a significant probability of failure.
- ▶ Carefully managing your exit from overpriced investment markets, again using our valuation driven 'Tipping Point' methodology.
- ▶ Including in your portfolio – if appropriate given your tolerance to risk – a range of high quality growth assets like shares & property because they usually outperform defensive assets (like bonds and cash) over the long term. (See Chart 4, previous page.)
- ▶ Not being swayed by short term market 'noise'. We know that short term returns are usually based on market sentiment which can change overnight for any number of reasons (valid or not), while long term returns are usually based on the more predictable fundamentals of earnings and growth of earnings.
- ▶ Also including in your portfolio – if appropriate – high quality, capital secure fixed interest investments because they provide a certain result and this can be important in assisting you in reliably achieving your long term goals.
- ▶ Using our 'Tipping Point' methodology to ensure that high quality investments are bought at reasonable prices. Paying too much, even for high quality assets, may still deliver mediocre returns.

### Excerpt from 'Tipping Point' Table

Australian Equities		
All Ords Index	Forecast 10 year return (p.a.)	Status
7900	4.3%	Overpriced
7650	4.8%	Fully priced
7400	5.2%	Fully priced
7150	5.7%	Fully priced
6900	6.2%	Fully priced
6650	6.8%	Fully priced
6400	7.4%	Fair value
6150	8.0%	Fair value
5900	8.6%	Fair value
5800	8.9%	Fair value
5700	9.1%	Fair value
5600	9.4%	Fair value
5500	9.7%	Cheap
5400	10.0%	Cheap
5300	10.3%	Cheap

<sup>+</sup> No guarantee is implied as to the accuracy of the specific forecasts provided. Data as at 1 January 2015.

## 3 Investment management fees must be kept at low levels

### Paying high investment management fees can seriously detract from a portfolio's performance

With some financial planning firms, investment management fees can be as high as 1.5% p.a. of your money invested. However, wherever possible, we help our clients pay as little as 0.4% – 0.6% p.a. in investment management fees. We do this by:

- ▶ Having a firm objective of keeping investment management fees much lower than industry standards.
- ▶ Avoiding commission-based investments, and instead using a fee-for-service model.
- ▶ Using wholesale managed funds rather than retail managed funds. The difference in fees can be substantial, even when the funds are managed by the same people and invested in the same assets.
- ▶ Recommending a combination of direct assets (e.g. shares and term deposits) with quality managed investments as appropriate for you. Many direct assets do not have an additional layer of ongoing management fees that many managed funds have.
- ▶ Using high quality funds which have a low turn-over of investments and generally lower fees than more actively managed funds with much higher turn-over of investments. A combination of passively and actively managed funds is usually appropriate.

Note that, as well as investment fees, your portfolio might also be subject to fees for administration, as well as for our ongoing financial advice and services. In all cases we do everything we can to ensure that our fees are competitive or better.

## 4 Portfolios should be managed to maximise after-tax results

### Focusing on pre-tax returns can have poor after-tax outcomes

We will utilise every appropriate rule and strategy to ensure that your investments produce as high an after-tax return as possible. Some of the tax-saving strategies we employ include:

- ▶ Using managed funds which have a low turn-over of investments – and which therefore have less propensity to convert concessional tax capital gains into fully taxable income. (See Table 1, below.)

**Table 1: Targeting good pre-tax performance with high turnover can give low after-tax returns<sup>^</sup>**

10 years to 31 March 2013	Van Eyk Blueprint Australian Equities Fund <sup>1</sup> (High Turnover)	Russell Australian Share Fund <sup>1</sup> (High Turnover)	Vanguard Australian Equities Fund (Low Turnover)
Income	8.36% p.a.	7.75% p.a.	4.80% p.a.
Growth	1.68% p.a.	2.11% p.a.	5.16% p.a.
10 Year Total Return – Pre Tax	10.03% p.a.	9.86% p.a.	9.96% p.a.
After income tax (46.5%) <sup>2</sup>	5.76% p.a.	5.77% p.a.	6.53% p.a.

<sup>^</sup> Source: Van Eyk Research, Frank Russell, Vanguard and AUPFS

1. These are the best performing funds of funds over the 10 years to 31 March 2013. Funds of funds are where a research company chooses a range of managers to manage funds on its behalf. The results are consistent with normal industry practice.
2. Income is taxed at the full marginal tax rate. Capital gains and losses attract tax at half the full marginal tax rate.
3. Past performance is not a reliable indicator of future performance.

- ▶ Recommending direct investments which allow you to control when assets are sold, and therefore when capital gains are realised. This means you are in a better position to offset those gains against losses – or delay the sale until your taxable income is low – and so reduce taxation.
- ▶ Ensuring that the investments are held in the right person's name in order to minimise income tax and capital gains tax – as well as to maximise any tax deductions arising from the investments.
- ▶ Using tax effective structures as appropriate such as superannuation, account based pensions, family trusts, and companies.

## 5 Your strategic financial investment plan should be designed to ensure you achieve your long term lifestyle goals while taking as little risk as possible

**Most planners encourage you to take on the maximum amount of risk you can handle. We aim to do the opposite; we encourage you to take on the smallest amount of risk that you need.**

The main reason for investing is to create financial security in the form of a capital base which produces a reliable

income for yourself and your family, and possibly the next generation. The amount of capital you require will depend on your own lifestyle goals. Our role is to:

- ▶ Help you define your long term lifestyle goals.
- ▶ Determine the investment return required to achieve those goals.
- ▶ Determine the asset allocation which should generate that return over the required term.
- ▶ Ensure you are comfortable with the level of investment risk inherent in that asset allocation. And, if you are not, find a compromise that works for you i.e. change the level of risk by modifying the asset allocation, or modifying your long term lifestyle goals, or deferring present day consumption to the future.
- ▶ Select the individual investments within each asset class which are most likely to deliver the return you require in a prudent and predictable manner.
- ▶ Construct and implement your portfolio.
- ▶ Regularly review your investments to ensure they continue to perform as expected. If their expected returns or the risks applying to specific investments in your portfolio change significantly, or if your circumstances change, we will recommend appropriate modifications to your portfolio.

## Who is Australian Unity Personal Financial Services?

We specialise in providing professional strategic advice to help you improve your current financial position and ultimately achieve your long term lifestyle goals.

Importantly, our initial advice isn't a 'set and forget' service. Instead we offer you regular financial mentoring and ongoing guidance – in all aspects of your personal finances – to set you, and keep you, on the path to financial wellbeing.

Our team of experienced financial professionals can provide you with a detailed and totally tailored blueprint for financial success in any or all of the following areas:

- Financial advice
- Retirement planning
- Superannuation
- Wealth creation
- Investments
- Home loans

- Commercial loans
- Equipment finance
- Personal estate planning
- Personal risk insurance
- Investment loans
- Car finance
- Business estate planning
- Business risk insurance.

Australian Unity has a proud 170 year heritage of helping Australians create secure financial futures. This pedigree and experience, combined with our corporate strength and leading edge strategic advice capability, means we are uniquely placed to offer you high quality personal financial services... each finely tuned to your particular needs to ensure you achieve your vision of a secure financial future.

After all, your financial wellbeing is at the heart of everything we do.

**MoneyInsights<sup>®</sup>**  
with Australian Unity Personal Financial Services

Australian Unity Personal Financial Services is committed to providing Australians with a genuine understanding of their investment options. This is achieved via our comprehensive investor education program called Money Insights.

*Because knowledge is the first step to creating a secure financial future.*

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